



Soviet leaders form an honor guard at the funeral of Leonid I. Brezhnev in the House of Unions. They are, from left, Defense Minister Dmitri F. Ustinov, Konstantin U. Chernenko, Prime Minister Nikolai A. Tikhonov and Yuri V. Andropov, Mr. Brezhnev's successor as party leader.

Lack of Unanimity Is Hinted In the Selection of Andropov

By John F. Burns

MOSCOW — Reports circulating in Moscow have begun to question the official version of Yuri V. Andropov's appointment as general secretary of the Communist Party, suggesting that the emphasis on unanimity in the party's announcements cloaked some sort of contest for the top party post.

What happened in the Central Committee meeting that confirmed Mr. Andropov's promotion, or in the meeting of the ruling Politburo that preceded it, is inherently difficult for Westerners to establish. Both meetings were held in secret.

But sources claiming to have knowledge of what occurred, including one man who spread word of Leonid I. Brezhnev's death several hours before it was confirmed, have been spreading versions of the key meeting that imply a less clear-cut victory for Mr. Andropov

than official announcements implied. One report says that partisans of Konstantin U. Chernenko, Mr. Brezhnev's closest political lieutenant and his apparent deputy in the last months of his rule, forced a vote in the Central Committee that confirmed Mr. Andropov by a handful of votes.

Weighing accounts such as these is problematic because the sources are careful to disguise how they learned of the voting other than to say that their informants were in contact with Central Committee members.

In the Soviet context, there is a possibility that persons who purvey such information to Western reporters are working on behalf of Kremlin interests, in this case Mr. Andropov's rivals.

Nonetheless, the fact that the sources are alert to possible surveillance of their activities by the KGB, the state security and intelligence organization, and that any questioning of Mr. Andropov's authority might be dangerous, could itself be read as a sign of some tension in the new party leader's authority.

In every previous succession going back to Stalin's takeover from Lenin in 1924, there has been a period in which the new leader has been subject to challenge from rivals or has had to show considerable deference to them.

The official image of the current transition has been somewhat different. Mr. Brezhnev was reported to have died of cumulative heart failure at 8:30 A.M. Wednesday. Less than 30 hours later, at 2:05 P.M. Thursday, the official press agency Tass moved a bulletin on its Russian-language wire announcing that Mr. Andropov had been "unanimously elected" general secretary at a special plenary session

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U.S. Lifts Pipeline Sanctions; France Alone in Objections

Paris Rebuffs 'Linkage' to Tighter Trade

By Axel Krause

PARIS — With the exception of France, the U.S. allies in Western Europe and Japan enthusiastically welcomed President Ronald Reagan's decision to lift sanctions against companies helping to build the Soviet natural gas pipeline to Western Europe.

There was no immediate reaction from Moscow, but diplomatic sources said they assumed the Soviet leadership was pleased by the U.S. announcement Saturday.

France's objections, a high-ranking French official said Sunday, stemmed largely from Mr. Reagan's linking of the removal of sanctions to a tightening of East-West trade in general. President Francois Mitterrand has strongly opposed such linkage throughout the five-month pipeline dispute.

"The linkage was unacceptable," the official said, adding that Mr. Mitterrand also objected to the unilateral announcement by Washington.

The official said, however, that France remained willing to develop a "concerned approach" among the allies to East-West trade.

Diplomatic sources in Europe noted that the harsh French reaction coincided with strains with Washington over other trade issues, such as subsidized export credits in industry and agriculture. Further, France has adopted import-restricting measures that the United States formally expressed "regrets" about on Friday.

But the French official described American and French relations as "excellent on essentials," such as defense, the Middle East and economic issues.

Despite France's reaction, many diplomatic sources in Europe



President Reagan, with Ambassador Anatoli F. Dobrynin, signs a book of condolences at the Soviet Embassy in Washington.

agreed that Mr. Reagan's outline of the agreement was similar to the consensus on East-West trade reached by the allies in June at the Versailles summit conference.

"In substance, we are right back to where we were at the time of the summit," a diplomatic source said Sunday, "although obviously, after allied relations worsened, President Reagan has taken a major step to patch things up with the allies."

In London, Foreign Secretary Francis Pym of Britain said he was "delighted" with Mr. Reagan's announcement. "Getting the sanctions off has been my main priority since the summer," Mr. Pym said, adding that he and U.S. Secretary of State George P. Shultz "have worked hard and closely for this result."

Mr. Pym, whose government has strenuously opposed the sanctions, said the agreement was "good news for the West."

"We now have a broad measure of agreement to guide the West's economic approach to the East," he said, adding "more work remains to be done."

A West German spokesman said in Bonn that Mr. Reagan's announcement was viewed "as a significant step."

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Reagan Says U.S., Allies Agree on Trade Policy

By Richard M. Weintraub

WASHINGTON — President Ronald Reagan has ordered sanctions lifted against companies involved in building the Soviet natural gas pipeline following what he said was "substantial agreement to a plan of action" on strategic aspects of East-West economic trade.

The sanctions had been the source of a growing rift between the United States and its major European allies, and Saturday's announcement followed weeks of intensive negotiations to find agreement on a face-saving alternative.

Whether there is such an accord was immediately thrown into doubt, however, when the French government said in Paris that it "is not a party to the agreement announced this afternoon in Washington."

Diplomatic sources close to the negotiations said that the French announcement was "unexpectedly harsh."

They noted, however, that it left open the possibility that France might agree eventually to join in developing an East-West trade strategy after making its point that the effort had no relation to the pipeline sanctions. France has pictured them as an "obnoxious" U.S. problem that Washington must solve by itself.

France said it "noted" the announcement of the lifting of sanctions. Other European countries with companies affected by the sanctions — Italy, West Germany and Britain — said that they welcomed the Reagan announcement, made in his weekly radio broadcast.

U.S. officials said they had understood that France was "in substantial agreement" on East-West economic issues, as announced by the president. The officials noted that there have always been differences in perception on the relationship of the sanctions to "the overall agreement on economic issues which the president announced."

U.S. officials said that the timing of the announcement was not intended as an olive branch to the new Soviet leadership. Mr. Reagan said on leaving the White House for a brief trip to Chicago that it was not linked to the Soviet transfer of power or the release of Solidarity union leader, Lech Walesa, in Poland.

Asked what kind of signal he wanted to send the new Soviet leadership, Mr. Reagan said: "I hope the signal will be that we are ready for a better relationship anytime that they are."

In Moscow, there was no direct reaction to the Reagan announcement, but Soviet television highlighted Mr. Reagan's visit Saturday morning to the Soviet Embassy in Washington to sign a book of condolences on the death of President Leonid I. Brezhnev.

Mr. Reagan imposed the sanctions against U.S. companies after imposition of martial law in Poland last December. They were extended to foreign companies using U.S. technology in June following the collapse of efforts to reach a limited agreement on East-West trade at the economic summit meeting in Versailles.

Under the sanctions, selected U.S.-made or -licensed oil and gas equipment was embargoed to companies that shipped items for the Soviet natural gas pipeline to Western Europe.

From the outset, the administration said that it would lift the sanctions if the Polish government freed Mr. Walesa and other internees, ended martial law and opened talks with Solidarity and the Roman Catholic Church, or if the Europeans came up with more effective measures against the Russians.

"I am pleased to announce that the industrialized democracies have this morning reached substantial agreement to a plan of action," Mr. Reagan said in his broadcast. "The understanding we have reached demonstrates that the Western alliance is fundamentally united and intends to give consideration to strategic issues when making decisions on trade with the U.S.S.R."

"As a result, we have agreed not to engage in trade arrangements

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U.S. Analysts See Andropov as Tougher and Shrewder Than Brezhnev

By Hedrick Smith

WASHINGTON — Yuri V. Andropov, who surprised Washington by the speed with which he outmaneuvered rivals for the Soviet Communist Party leadership, is regarded here as a tougher, smarter, shrewder competitor for the United States than Leonid I. Brezhnev.

His first speech, emphasizing Soviet military might, was read here as an expected show of forcefulness, an echo of Mr. Brezhnev's final theme, and a political bow to the important constituency of the "armed forces" at the vulnerable moment of succession. Washington is looking for a more definitive outline of policies in the coming years.

On the record, the new Soviet leader is seen by U.S. specialists as a man of contradictions, a cultivated and fairly well-traveled party

careerist personally fascinated by Western society but concerned that Soviet society has become too corrupt and consumer-minded, a strong advocate of the Soviet military buildup but a backer of negotiations with the West who has warned on occasion that détente was in danger and required "constant movement forward."

The Reagan administration is wary of official Soviet efforts to depict Mr. Andropov as a liberal. Some officials, citing his 15 years as head of the secret police, the role in the suppression of the Hungarian rebellion in 1956, describe him as a "neo-Stalinist hard-liner" and anticipate new crackdowns against Soviet dissidents, economic

corruption and lax habits among Soviet workers.

But others contend that as a more intelligent, more widely traveled man than the other top party leaders, Mr. Andropov will in time prove pragmatic and adaptable, move cannily with Eastern Europe, play upon political divisions in the West on nuclear arms issues and perhaps even undertake conciliatory moves toward the West.

A few suggest that, as expected, he pursues the Brezhnev effort to improve relations with China, it could lead toward some reduction in Soviet forces along the Chinese frontier and thus a reduction in the size of the Soviet armed forces and military spending.

All agree on his skill, intelligence and obvious support in the Communist Party apparatus that has put him in power.

"We're up against a much smarter and tougher competitor with Brezhnev," a senior government analyst commented. "He understands us better. He's much more intelligent. I wouldn't be surprised to see him push a peace offensive in Europe to play upon the differences in the Western alliance. And remember, he's the guy who managed the brutalization of Hungary."

"He's a guy who has pretty informed opinions on defense and foreign policy issues," said another top official. "He's no liberal flower. But what he'll do now that he's on top is all speculation. People change in that position. Much will depend on the coalition that backs him."

"It's wrong to divide these people into conservatives or liberals, hawks or doves, Stalinists or non-

Stalinists," commented Zbigniew Brzezinski, national security adviser to President Jimmy Carter. "The point is that they're all tough and brutal. The difference is that some are more intelligent, more sophisticated, more experienced and others are more parochial, narrow-minded and even stupid."

"I think Andropov is going to be an extremely tough and shrewd competitor," he went on, "but unless you expect the Soviet system to collapse under a stupid leader, it's probably safer for us all if our principal rival can be more intelligent."

Most specialists cautioned that Mr. Andropov's quick accession would not end the Kremlin succession struggle because it would take him time to consolidate power.

"Andropov is very much the

creature of the Communist Party apparatus," commented Adam Ulam, director of Harvard University's Russian Research Center. "He's sort of Brezhnev a few years younger. But the fact he's been chosen as general secretary of the party does not end the struggle for succession. It just ends one phase of it. The question is, can Andropov establish his domination?"

"Once entrenched, Andropov is going to be difficult to unseat," remarked Jerry F. Hough, a scholar of Soviet internal politics and a professor at Duke University.

Mr. Hough is among a minority who openly called Mr. Andropov's accession "encouraging" and predicted "major changes" coming faster in foreign and military policy than in domestic changes, possibly including reductions in Soviet military spending.

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Crowd Cheers Walesa On Return to Gdansk

GDANSK, Poland — Lech Walesa, leader of the banned Solidarity union, returned home to Gdansk on Sunday after 11 months of internment as a crowd of supporters chanted, "Lech! Lech! Lech!"

Just before 10:30 P.M., an automobile pulled up to the crowd of more than 1,000, which had stood vigil throughout the day waiting for word on his whereabouts.

There is no freedom without Solidarity, shouted members of the crowd, some clinging to the car and making it difficult for Mr. Walesa to get out.

Mr. Walesa's supporters and family had grown anxious throughout the day because there had been no word of him for more than 24 hours after his release from a remote government-owned hunting lodge near the Soviet border.

A 40-minute television interview with Mr. Walesa, which Polish television had said would be broadcast during the evening news Sunday, was not aired, and the authorities gave no explanation for the change in plans.

Except from the interview, which was reportedly filmed Saturday just before he left the Polish village of Arlamow, had quoted Mr. Walesa as endorsing "national sentiment" but "not on my knees."

Before Mr. Walesa's arrival at the eight-story, concrete apartment where he lives with his wife, Danusia, and seven children, family members said they were beginning to get "anxious."

Rumors that Mr. Walesa, 39, was meeting with officials of the Roman Catholic Church before re-

turning to his home were apparently unfounded.

A spokesman in Czesochowa said he had not been there to pray at the shrine of the Black Madonna. Auxiliary Bishop Jan Michalski said Mr. Walesa also had not been seen in Geniezo, where the Polish primate, Archbishop Jozef Glemp, is staying.

Mrs. Walesa attended a special Mass at St. Brigida Church at noon, celebrated by the Reverend Henryk Jankowski, a family friend, who told the congregation: "I'm getting anxious about Walesa. We are trying to find out information on him."

CAF, the official Polish photographic agency, Saturday night moved pictures of Mr. Walesa walking out the glass doors of the hunting lodge at Arlamow. He looked heavier than before his internment, which began when martial law was imposed Dec. 13, but he still had his walrus mustache and, as always, wore the badge of the Black Madonna on his lapel.



Lech Walesa before his departure from Arlamow, in a photograph released Saturday night by the official agency CAF.

Taped interview with Walesa. In his first interview since being interned, Mr. Walesa said he had sought talks with the martial law government because the time was ripe for agreement "not with me on my knees, but a fair, proper agreement," the Los Angeles Times reported from Warsaw.

An audio tape recording of part of his interview, reportedly given to Polish television shortly before he was allowed to leave Arlamow, was obtained by ABC Television and a transcript was made available to Western journalists.

Polish television had been scheduled to feed part of the videotaped interview to Eurovision, a European television syndication

service, but the plan was apparently dropped at the last minute.

Since the recording includes only about five minutes of a reported 40-minute interview, it was not certain how accurately it reflected his views.

The government announced Thursday that it had ordered the release of Mr. Walesa because he "no longer poses a threat to the internal security of the state. The decision was made after delivery of a

letter written by Mr. Walesa to General Wojciech Jaruzelski, the martial law leader, in which Mr. Walesa proposed a meeting "and a serious discussion of subjects of interest."

On the audio tape, Mr. Walesa is heard to confirm that the interview is being conducted by mutual agreement.

"I am a man who is for agree-

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Chinese Urge Russians To Seek Closer Links

By Michael Parks

BEIJING — China called upon the Soviet Union's new leadership on Sunday to continue the effort to improve Chinese-Soviet relations that President Leonid I. Brezhnev began before his death. It also indicated a readiness to respond positively to further Kremlin moves.

Beijing's most conciliatory statement since Chinese-Soviet relations broke down 25 years ago, Foreign Minister Huang Hua expressed China's "sincere desire" to restore the "profound traditional friendship" between the two countries.

Departing for Mr. Brezhnev's funeral in Moscow, Mr. Huang reiterated the Chinese view that the Soviet Union must make the first move, but expressed a new preparedness to match the Kremlin's efforts.

"The Chinese people sincerely wish that there will be a genuine improvement in the relations between the two countries through the removal of obstacles and that these relations will return to normal step by step," Mr. Huang declared.

While mourning the death of President Brezhnev, we hope that General Secretary Yuri Andropov and the Soviet Party and government authorities make new efforts to promote the improvement of Chinese-Soviet relations," he also praised Mr. Brezhnev as "an outstanding statesman."

The word "obstacles" referred, diplomats here said, to China's three preconditions for the improvement of Chinese-Soviet relations: a reduction in Soviet forces along the Chinese border and in Mongolia, a Soviet withdrawal

from Afghanistan and an end to Moscow's support of the Vietnamese occupation of Cambodia.

But Mr. Huang's use of the phrase "step by step," normally suggested by Soviet officials as the best way to end the long-standing hostility, signaled a new willingness here to proceed on other levels, such as trade and cultural exchanges, while political discussions continue.

Deputy foreign ministers from China and the Soviet Union held three weeks of negotiations here last month on improving relations and agreed to hold another round of talks in Moscow.

Mr. Huang told Western diplomats before his departure that he did not expect any substantive talks to be held in Moscow with Mr. Andropov or Foreign Minister Andrei A. Gromyko.

But East European diplomats drew a comparison between Mr. Huang's trip and that of the late Prime Minister Chou En-Lai, who led a Chinese delegation to Moscow in November 1964 just after Mr. Brezhnev took over the leadership from Khrushchev.

"Mr. Huang Hua wants to get the feel of the situation, to get an initial assessment of prospects," a Soviet bloc ambassador said. "While there are long-term interests and trends, there are also impressions that can help shape decisions."

Mr. Huang is the highest ranking Chinese official to visit Moscow since 1964 trip, and the visit to the Soviet Embassy here by General Ulanhu, deputy chairman of the National People's Congress, China's parliament, to express "deep condolences" was the first by a member of the ruling Politburo in two decades.

Eitan Aide Contradicts Begin Over Massacres

Washington Post Service

JERUSALEM — An Israeli Army officer publicly contradicted Prime Minister Menachem Begin, testifying Sunday that Mr. Begin had inquired about events at a West Beirut refugee hospital hours before Mr. Begin has acknowledged knowing anything about the Beirut massacre of Palestinian civilians.

A second witness, a Foreign Ministry official, who appeared before the judicial board of inquiry that is investigating the massacre, disclosed that a U.S. special envoy, Morris Draper, asked Israel to remove the Lebanese Christian militia units from the refugee camps about 12 hours before the militia actually left.

The officer, Lieutenant Colonel Zev Zecharin, is the senior aide to the chief of staff, Lieutenant General Rafael Eitan. He testified Sunday that at 10:30 A.M. on Sept. 18, General Eitan told him he "had spoken with the prime minister and the prime minister had asked to receive data on what happened in Gaza Hospital."

Colonel Zecharin said he later told General Eitan that patients in the hospital, which is located in the Sabra refugee camp, had not been harmed.

Mr. Begin has maintained throughout the investigation that he first learned of the massacre from a British Broadcasting Corp. news report at 5 P.M. on Sept. 18, hours after the Christian Phalangist militiamen had left the Palestinian neighborhoods. He said that he was in his synagogue for Rosh Hashana observances from about 8:30 A.M. to 1:30 P.M. and that he did not speak to General Eitan until the afternoon of Sept. 18.

The commission is also investigating a reported conversation he had with General Eitan on the night of Sept. 17. Mr. Begin testified earlier that he could not remember that conversation, which would have occurred on the second night of the massacre, the same night that Mr. Draper requested Israeli action to remove the Phalangist units.

Testimony on Sunday by Ariel Kenet, the Foreign Ministry official, was the first direct report of U.S. pressure to remove the militia units from the Palestinian neighborhoods.

Mr. Kenet told the inquiry board that he was the Foreign Ministry's duty officer on Sept. 17

when the ministry's representative in Beirut sent a message saying: "Morris Draper says that he has received reports, or that he has learned, that [Phalangist] personnel were seen in the Chatila camp, and that their presence in the camp could or may lead to undesirable developments."

He said Mr. Draper asked that Israel "should intervene or take steps in order to prevent something which he believes may develop."

Begin's Wife Dies

Prime Minister Menachem Begin's wife of 43 years, Aliza, 62, died in a Jerusalem hospital early Sunday, and the Israeli leader canceled the remainder of his scheduled 10-day visit to the United States and flew back to Israel, the Los Angeles Times reported from Los Angeles.

Mr. Begin, 69, canceled a planned trip to Zaire last month because of her illness. He said on Oct. 19 that he was considering cutting short his term of office, due to end in 1985, because of her condition. She had been hospitalized for several weeks for respiratory and circulatory problems.

INSIDE

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■ Giovanni Spadolini resigned as Italy's prime minister for the second time in three days and President Pertini said he would open consultations for a new cabinet. Page 5.

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U.S. Participation in International Institute to Continue

By Charles Mitchellmore
International Herald Tribune

PARIS — An international scientific research center, founded 10 years ago as a symbol of East-West détente, is to continue with U.S. participation despite the withdrawal of financial support by the Reagan administration.

The 17-nation International Institute for Applied Systems Analysis is to announce Monday approval of a plan under which the American Academy of Arts and Sciences, with funding from U.S. foundations and private corporations, will become a member, replacing the National Academy of Science, which has been supported by the U.S. government through the National Science Foundation.

The institute, housed in a restored Hapsburg hunting lodge near Vienna, is an interdisciplinary center that was born of negotiations begun by President Lyndon B. Johnson's national security adviser, McGeorge Bundy, and Dzhemal M. Gvishiani, the son-in-law of the late Soviet prime minister, Alexei N. Kosygin. In a typical project — such as assess-

Private Group Will Fill Gap Left by Reagan Funding Cut

ment of world energy needs or water resources management — economists and historians are brought together with scientists to use mathematical models for problem solving.

Howard A. Raiffa, a professor at the Harvard Graduate School of Business, who was the institute's first director, views the plan to continue U.S. membership without government support as a test of support for Reagan policy toward the Soviet Union.

In a telephone interview, he noted that the administration's cutoff of funds was "primarily for ideological reasons," adding, "Some people believe that we shouldn't cooperate with the Soviet Union on anything these days." But, he said, he was convinced that "in the scientific community, and in the country as a whole, the majority of Americans disagree."

Mr. Raiffa, who helped raise funds for the membership transfer, said he was convinced that there would be a reversal of the U.S. policy toward the institute, "perhaps

even in Reagan's first term of office."

The White House announcement in March said that the decision to end funding was made because "it was inappropriate to continue our involvement in IIASA in light of other actions we have taken to show our displeasure about martial law in Poland."

George A. Keyworth, the White House science adviser, also noted that he called "Soviet misuse of the institute for intelligence purposes" and "imbalance in the benefits accruing to the United States" from membership in the institute.

The first reference was to an incident last year in which the secretary of the institute, Arkady Belozorov, was identified as a spy chief by a Norwegian who confessed to being a double agent. Mr. Belozorov, a Russian, denied the accusation but resigned. Roger Levia, an American scientist who was then the institute's director, has called it "an outrageous abuse" by the Soviet Union, but he said that

the intelligence activities had not involved any institute work.

There have been subsequent charges, based on an unpublished CIA report, that the institute's computer links to Britain and the United States have allowed the Soviet Union access to secret data. This has been repeatedly denied by the institute. C.S. Holling, a Canadian zoologist who is the current director, said in a telephone interview last week that everything available through the computer links was in the public domain.

Mr. Keyworth's other charge, about lack of reciprocity in benefits, has been heard since the institute's beginnings. Mr. Holling said the institute was "a two-way street." He cited as an example a current project in which U.S. and Canadian experts came to the institute to obtain Soviet assistance on forestry and fisheries that they had been unable to get through other channels.

When Mr. Raiffa was asked the same question earlier, he replied

that "enough information has flowed to the United States to make a good cost-benefit ratio. We are learning a lot about Soviet operations that we did not know. But even if certain things do flow from West to East and influence things in the East in ways which we think are desirable, then that's a plus for West and East."

Although U.S. participation has been assured, the future of British membership is in doubt. The Royal Society, which has been Britain's representative, withdrew this year because of what have been described as disagreements about the usefulness of the institute's research projects. But Mr. Holling said that efforts were under way to transfer British membership to the Fellowship of Engineering and that the institute's council had approved the move.

Mr. Holling said that the change in U.S. membership, which involves, for 1983, a reduction in dues from \$2.3 to \$1.5 million, will not force any program cuts at the institute because next year's budget was written on a "worst-case" basis of no U.S. participation. He



C.S. Holling, director. The institute is "a two-way street."

said the Soviet Union would continue to pay its full \$2.3-million assessment. About 100 scientists are in residence at the institute, in Laxenburg, Austria, for periods averaging about two years.

WORLD BRIEFS

Salvadoran Power Stations Attacked

SAN SALVADOR (UPI) — Leftist rebels attacked El Salvador's largest hydroelectric dam Sunday and blacked out half the nation in a separate bombing of a power transmission tower.

In a separate development, the families of four American churchwomen who were murdered in December 1980 announced they will boycott the upcoming trial of five National Guardsmen charged with the killings. A letter from the Lawyers Committee for International Human Rights, a New York-based group representing the families, was critical of both the State Department and the U.S. Embassy's handling of the investigation.

Kohl Leaves for Talks With Reagan

BONN (Reuters) — Chancellor Helmut Kohl left Sunday for talks in Washington with President Ronald Reagan with the avowed aim of restoring U.S. confidence in its West German ally.

Mr. Kohl, who became chancellor six weeks ago, made clear when outlining his new government's program to parliament last month that his top foreign policy objective would be to improve Bonn's trans-Atlantic ties. West Germany's foreign minister, Hans-Dietrich Genscher, will fly to the United States to join the talks after he attends the funeral Monday of President Leonid I. Brezhnev in Moscow.

In addition to his talks with Mr. Reagan, Mr. Kohl will meet other members of the U.S. administration before going to New York to see the United Nations secretary-general, Javier Pérez de Cuellar, and representatives of U.S. Jewish organizations.

390 Sikhs Are Arrested in India

NEW DELHI (UPI) — Police arrested 390 Sikhs during the weekend in the northern state of Punjab, and sealed off New Delhi to prevent the Sikhs from carrying out a threat to disrupt the Asian Games, officials said Sunday.

Police erected roadblocks on highways leading into New Delhi and stopped cars, buses and trucks, officials said. They said only Sikhs were being prevented from entering. Police reinforcements from neighboring Uttar Pradesh state arrived last week. The Akali Dal, the main Sikh political party, has vowed to bring its campaign for autonomy to New Delhi for the games, which run from Nov. 19 to Dec. 4.

Over the weekend, police in Punjab, an agriculturally rich state near the border with Pakistan, arrested 390 Sikhs belonging to the Akali Dal. Several explosions were set off Saturday in Punjab, but there were no immediate reports of damage or casualties.

U.K. Reportedly Rules Out Spy Deal

LONDON (AP) — Prime Minister Margaret Thatcher has ruled out the possibility of any deal with the Soviet Union to swap a convicted spy, Geoffrey Prime, for a Western agent or agents held by Moscow. The London Times last reported.

Government sources were quoted by The Times on Saturday as saying that Mrs. Thatcher was opposed to any deal that would enable Mr. Prime to escape a 35-year prison term.

Mr. Prime, 44, a former translator at Britain's electronic intelligence-gathering Government Communications Headquarters, was sentenced last week after pleading guilty to passing top secret information to the Soviet Union.

Seychelles Leader Alleges Coup Plot

VICTORIA, Seychelles (Reuters) — President Albert René has declared that exiles in Britain have plotted to murder a minister in the Seychelles amid bombings and arson that were intended to lead to an invasion by mercenaries recruited in South Africa.

In a speech made to political activists Friday and broadcast Sunday, Mr. René said that the plotters planned to kill Mathew Servina, the agriculture minister and deputy secretary-general of the Seychelles' only political party, the leftist Seychelles People's Progressive Front.

For the Record

BEIJING (Reuters) — China has rejected a proposal from the Dalai Lama, Tibet's spiritual leader, for closer ties. The Beijing Review reported Sunday. The magazine said a group representing the former Tibetan leader asked China in June to give Tibet the same treatment it has promised Taiwan. This included an independent economic structure and autonomous armed forces.

NEW YORK (UPI) — A judge ruled Friday that the government of Iran can sue the late Shah's twin sister, Princess Ashraf Pahlavi, for \$3 billion on a claim that she looted the palace's treasury. Iran charged that the princess and the Shah fled in 1979 with property belonging to the treasury and to the people of Iran.

LONDON (AP) — James Prior, Britain's Northern Ireland secretary, was to fly to New York Sunday night for a weeklong visit during which he planned to appeal to Americans to stop giving money to Irish Republican Army front organizations. British security officials have said the IRA gets half its weapons from the United States.

LONDON (UPI) — A crowd of several thousand, led by Queen Elizabeth II and Prime Minister Margaret Thatcher, gathered in a persistent drizzle for a Remembrance Sunday memorial ceremony for the dead of two world wars and the Falkland Islands campaign.

MUSCAT, Oman (Reuters) — South Yemen, which has a Marxist government, and Oman, its conservative neighbor, have agreed to establish diplomatic relations and end 15 years of feuding, informed sources said Sunday. The agreement, signed in Kuwait, was drafted at talks mediated by Kuwait and the United Arab Emirates on behalf of the Gulf Cooperation Council.

U.S. Lifts Pipeline Sanctions; Reagan Says Allies in Accord

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which contribute to the military or strategic advantage of the U.S.S.R. or serve to preferentially aid the heavily militarized Soviet economy.

Mr. Reagan and senior administration officials said that the United States, Canada, Japan, West Germany, Britain, France and Italy, along with other European Community countries, had agreed to develop policies in the areas of energy trade with the Soviet Union, "harmonization" of credit policies and strengthening existing controls on sale of strategic items to the Soviet Union.

While the studies are under way, Mr. Reagan said that there would be no new contracts for purchase of Soviet natural gas and that procedures for monitoring financial relations with the Soviet Union would be established "without delay."

U.S. officials said there would be no signed agreement in the sense of a treaty but that there would be an intensive negotiation.

"The so-called study is a work program, a commitment to follow up in these areas," one senior administration spokesman said. He also said the accord was explicit about credits, energy and transfer of high technology.

"This is a very high stakes agreement," another official said, noting that the Russians were likely to be able to complete the pipeline currently under construction and that it was the goal of the planned energy studies to avert planned second and third pipelines that could make Western Europe dependent on Moscow for as much as 40 percent of its natural gas.

The official said the credit study, acknowledged by all concerned as probably the most difficult area to negotiate, was designed to go beyond the current agreement on a common interest rate to include down payments, length of loans and other terms.

Officials said that the sanctions would be lifted effective Saturday and that companies could ship and sell oil and gas transmission equipment to the Soviet Union.

Paris Rebuffs Conditions

(Continued from Page 1)

nal to the Soviet Union for constructive developments in East-West relations." The spokesman said he hoped the Russians would respond by negotiating "seriously" to limit Soviet medium-range missiles in Europe.

Mr. Reagan's decision to remove the sanctions also helps create "a good start" for Chancellor Helmut Kohl's three-day visit to Washington, the spokesman said. Mr. Kohl is scheduled to begin talks Monday with Mr. Reagan and other U.S. officials.

In Rome, the Italian government released a letter from Mr. Reagan to Prime Minister Giovanni Spadolini in which Mr. Reagan praised him for his role in helping to end the dispute.

Mr. Spadolini, who has resigned, met with Mr. Reagan in Washington earlier this month and reported that "a solution is very near."

"I am very happy that we have been able to reach this agreement immediately after your visit," Mr. Reagan wrote. "The role of Italy during all of the course of these negotiations was constructive and of crucial importance."



Defense Minister Ariel Sharon touring the ruins of an Israeli military headquarters in southern Lebanon that collapsed after an explosion on Thursday, killing 75 soldiers and 14 Arab civilians.

Israeli Minister Says Blast in Tyre Caused by Accident, Not Sabotage

Compiled by Our Staff From Dispatches

JERUSALEM — The explosion that killed 89 persons in an Israeli military headquarters in southern Lebanon was caused by an accident rather than sabotage, Energy

Minister Yitzhak Mordechai said Sunday.

"We do not know exactly what is the cause, but it certainly is not a sabotage action. That's what the army tells us," Mr. Mordechai said after a cabinet meeting devoted to Thursday's explosion in Tyre.

Mr. Mordechai's statement was the first official word after a series of news reports contradicted the army's initial declaration that the explosion was caused by a car bomb. The army later said that the cause was undetermined, and some reports blamed leaking from cooking gas cylinders.

Several Lebanese and Palestini-

an guerrilla groups claimed responsibility for the blast, which caused the collapse of the seven-story building.

The military command said 75 Israelis and 14 Arabs, most of whom were being held for questioning as suspected terrorists, were killed in the blast. The death toll made it the worst military accident in Israel's history.

The cabinet proclaimed Monday a national day of mourning. Mr. Mordechai said, Special radio and television programs are to be broadcast, and the Knesset will hold a special memorial session.

According to experts interviewed on Israeli television, the evidence pointing to an accident includes a lack of any sign of high-powered explosives in the structure and no signs in the area, such as broken windows in nearby buildings, that there had been a concussion explosion.

The Israeli Army has appointed an commission to determine the cause and make a report this week.

New Soviet Leaders Are Assessing Reagan's Gestures of Conciliation

By Dusko Doder
Washington Post Service

MOSCOW — The new Kremlin leadership appears to have signaled a readiness to consider President Ronald Reagan's conciliatory gestures as offering the possibility of improving relations.

In what was seen by observers here as a significant response, Moscow television on Saturday night devoted a considerable portion of its main evening news program to Mr. Reagan's visit to the Soviet Embassy in Washington Saturday morning.

That, along with Mr. Reagan's announcement Saturday of the lifting of U.S. sanctions against the trans-Siberia gas pipeline and the dispatch of a high-level delegation to attend the funeral of Leonid I. Brezhnev, was interpreted by well-informed sources as improving the atmosphere for discussions.

The sources said, however, that Moscow would have to assess Mr. Reagan's posture carefully before it could suspend a major counteroffensive that had been emerging during the last weeks of Mr. Brezhnev's life.

The Soviet media Saturday night ignored Mr. Reagan's announcement that pipeline sanctions would be lifted. All along, Moscow has insisted that the sanctions would not delay construction of the pipeline.

The ruling elite in Moscow, and the hard forces in particular, appear to suspect a plot behind the gestures of good will — a maneuver to delay new Soviet weapons programs forecast by Mr. Brezhnev while Mr. Reagan continues his arms buildup.

The possibility of clearing up those suspicions may arise when Vice President George Bush and Secretary of State George P. Shultz arrive for the funeral.

The U.S. officials have broadly hinted that they would welcome an opportunity for Mr. Bush and Mr. Shultz to meet with Yuri V. Andropov, Mr. Brezhnev's successor as leader of the Communist Party.

Mr. Bush, who was due in Moscow Sunday night, is scheduled to leave after the funeral Monday to resume his African tour. The

Americans have let it be known that Mr. Bush and Mr. Shultz will delay their departure from Moscow if offered the opportunity to meet Mr. Andropov.

There was speculation that the Soviet leaders may organize a Kremlin reception for the visiting dignitaries after the funeral, which would provide a forum in which Mr. Andropov could meet with Mr. Bush and Mr. Shultz. That was the way President Lyndon B. Johnson received Deputy Prime Minister Anastas I. Mikoyan after the funeral of John F. Kennedy.

The two held a formal session the next day.

While emphasizing continuity of Soviet domestic and foreign policies, the new leadership was reported to be engaged in extensive preparations to revamp its ruling party and government bodies. Well-informed sources said that widespread personnel changes should be expected in the coming weeks.

There have been no official comments on foreign policy matters,

however, Mr. Andropov, in his speech to the party Central Committee, which elected him general secretary, emphasized that the country should not "beg peace" but should rely on the "invincible might" of its armed forces.

Diplomatic observers said it was too early to assess Soviet intentions, but the film of Mr. Reagan shown on Soviet television Saturday night was extraordinary, given his past treatment by the media.

Mr. Reagan was shown chatting with Ambassador Anatoli F. Dobrynin and signing a book of condolences. The newscaster said he wrote, "My condolences to the family of President Brezhnev and the peoples of the Soviet Union. May our two peoples live in peace in the world."

The broadcast also showed Mr. Shultz visiting the embassy and signing the book. The program included an interview with W. Averell Harriman, who was U.S. ambassador to Moscow during World War II.

Security Is Tightened For Brezhnev Funeral

By Serge Schmemmann
New York Times Service

MOSCOW — Security was tightened on the eve of the funeral of Leonid I. Brezhnev Monday as Moscow prepared to receive what is likely to be the largest gathering of foreign leaders in Soviet history.

A cordon around the center of Moscow was tightened. Except for a milelong line of organized mourners and for official cars headed for the House of Unions, where the body lies in state, no one was allowed past soldiers and policemen standing shoulder-to-shoulder on every boulevard, street and alley.

Hotels near in the city center were cleared of guests in preparation for the influx of the foreign delegations. Newspapers published appeals to anyone without real need to stay out of Moscow.

The security preparations seemed far more extensive than the arrangements for the Olympic Games in 1980. Columns of military trucks and mobile communications centers lined up on side streets, and Moscow was expected to come under an effective state of siege until after the funeral and the departure of the visiting guests.

The United States is to be represented by Vice President George Bush and Secretary of State George P. Shultz. A U.S. diplomat said Soviet officials considered the U.S. representation appropriate, recalling that Anastas I. Mikoyan, then the Soviet head of state but a secondary political figure, had attended the funeral of President John F. Kennedy in 1963.

The Soviet Union's allies planned to send their party leaders, including General Wojciech Jaruzelski of Poland, Fidel Castro of Cuba and Babrak Karmal of Afghanistan. China is to be represented by Foreign Minister Huang Hua, who will be the most senior Chinese official to come to Moscow since the mid-1960s.

Among the prime ministers expected were Pierre Elliott Trudeau of Canada, Zenko Suzuki of Japan, Pierre Mauroy of France, Indira Gandhi of India, Andreas Papandreu of Greece and Bulent Ulusu of Turkey. Britain is sending Foreign Secretary Francis Pym. Others attending will be President Karl Carstens of West Germany, President Mohammed Zia ul-Haq of Pakistan and Imelda R. Marcos, wife of the Philippines president.

Mr. Brezhnev's funeral coincides with the arrival of more than 250 U.S. corporation executives for a session of the Trade and Economic Council, a private group promoting trade between the two countries.

William D. Forrester, council spokesman, said Soviet officials would urge the group not to postpone the visit, which is expected to include a dinner in the Kremlin.

The preparations for the funeral seemed to place a freeze on political developments. Yuri V. Andropov, who was appointed Friday to succeed Mr. Brezhnev as party leader, made no statements or appearances Saturday.

Mr. Brezhnev's other position, chairman of the Presidium of the Supreme Soviet, in effect the nation's president, is expected to be filled when the Supreme Soviet convenes Nov. 23 to approve the 1983 budget and economic plan. The session was originally scheduled for Tuesday but was put off a week because of Mr. Brezhnev's death.

A pall of formal mourning settled over Moscow. Theaters closed or staged productions with patriotic themes, restaurants closed or silenced their bands, television and radio programming was restricted to somber shows and music.

Among Saturday's visitors to the House of Unions was Patriarch Pimen of the Russian Orthodox Church, who arrived with three metropolitans and an archbishop. Television also showed President Ronald Reagan and Mr. Shultz signing the condolences book at the Soviet Embassy in Washington, reading Mr. Reagan's message in its entirety.

Lack of Unanimity Is Hinted In the Selection of Andropov

(Continued from Page 1)

of the Central Committee, a body that has slightly more than 300 members.

The announcement said Mr. Chernomko had proposed the nomination on behalf of the Politburo, an inner body that has only 10 active members.

In the next two hours, the agency printed a succession of items that included a summary of the meeting, the texts of speeches by Mr. Andropov and Mr. Chernomko.

■ Bush Arrives in Moscow

Dusko Doder of The Washington Post filed the following account from Moscow.

Vice President George Bush said Sunday in Moscow that opportunities existed for seeking "a world of greater harmony not only between the two great superpowers but for all nations."

In a statement issued upon his arrival to attend the funeral Mr. Brezhnev, Mr. Bush said that "as we pay our respects to a renowned leader let us also take this occasion to give serious thought to the great and positive opportunities that are before us all."

In another development, sources disclosed Sunday night that the oldest member of the Politburo, Arvid Pelshe, 83, had died. The news of Mr. Pelshe's death is being withheld, according to the sources, because of Mr. Brezhnev's funeral Monday.

Representatives of more than 100 countries, including political leaders of more than 40 countries, at least 19 heads of state and representatives of three European royal families were expected to attend the ceremonies in Red Square.

Mr. Bush flew to Moscow from Africa, where he was on an official tour, and was immediately driven to the Hall of Unions, where Mr. Brezhnev is lying in state.

Mr. Bush, Secretary of State George P. Shultz, who arrived Sunday morning, and Ambassador Arthur A. Hartman presented a wreath on behalf of President Ronald Reagan.

It was expected that Mr. Bush and Mr. Shultz would have an opportunity to meet with Mr. Andropov at a Kremlin reception.

Pakistan, India to Confer

United Press International

ISLAMABAD, Pakistan — Foreign Secretary Niaz Ahmad Naik will visit New Delhi Nov. 22 to Nov. 24 for talks with Indian officials on establishing a joint ministerial commission to improve relations between the two countries, officials said Saturday.

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U.S. Again Asserts Soviet Tie to Freeze Effort

By Leslie Maidland

New York Times Service

WASHINGTON — The White House has cited government reports and magazine articles as documentation for President Ronald Reagan's contention that "foreign agents" had helped "instigate" the movement in the United States to freeze nuclear arms.

Larry M. Speakes, the deputy White House press secretary, said Friday that the State Department had issued reports on the Soviet infiltration of the peace movement and said further documentation was contained in articles in *The Reader's Digest*, *Commentary* and *The American Spectator*.

Mr. Reagan's remark at his news conference Thursday night came in response to a question as to whether evidence existed of foreign involvement in the movement to freeze the American and Soviet nuclear arsenals. Mr. Reagan said he could not discuss "intelligence matters," but that "plenty of evidence" existed. He said that the "overwhelming majority" of those who supported nuclear freeze proposals were "sincere and well-intentioned."

But he added, "There has been, in the organization of some of the big demonstrations, the one in New York, and so forth, there is no question about foreign agents that were sent to help instigate and help create and keep such a movement going."

"It is disheartening to see an American president returning to the tactics of McCarthyism," said Morton H. Halperin, speaking for the American Civil Liberties Union.

Leslie Cagan, one of the coordinators of the June 12 disarmament rally in New York, said:

"The president is hypocritical when he argues for increased military spending to help 'defend democracy' while at the same time he undermines our democratic right to public protest. The assertion that the American people are being manipulated by foreign agents only serves to divert our eyes away from the real issues: the clear and present dangers presented by our nuclear arsenals."

Randall Kehler, national coordinator of the Nuclear Weapons Freeze Campaign, said he doubted the president's faith in democracy. Noting that 12 million Americans voted for a freeze in recent ballot referenda, Mr. Kehler said: "It is naive of the president to believe that so many people — and perhaps many more who did not have an opportunity to vote on freeze referenda — could be instruments of the Soviet Union."

However, Roger S. Young, assistant director of the Federal Bureau of Investigation for congressional and public affairs, said that the president was "accurate" in describing "the Soviet attempts to influence the peace movement." Mr. Young said, "The FBI has received that information and has furnished it for the White House."

The Reader's Digest article cited

by the White House as a source of documentation for Mr. Reagan's remark — "The KGB's *Magical War for Peace*" — appeared last month and was written by John Barron. In it, Mr. Barron wrote that the objective of the KGB, the Soviet secret police and intelligence agency, is "to secure military superiority for the Soviet Union by

persuading the United States to abandon new weapons systems."

In describing Soviet efforts, Mr. Barron said the World Peace Council and the Institute for the U.S.A. and Canada are both Soviet fronts.

On an Oct. 4 visit to Columbus, Ohio, Mr. Reagan criticized the National Movement for a Freeze

on Nuclear Weapons as a group of "honest and sincere people" who were being manipulated by "some who want the weakening of America."

When supporters of the freeze reacted angrily to his remarks, Mr. Reagan said the next day that he did not mean that the manipulators were Americans.

U.S. Lay Catholics Seek to Alter Bishops' 'Leftist' Political Views

By Richard Bernstein

New York Times Service

NEW YORK — Led by a former New York City labor commissioner, some lay Roman Catholics here are beginning to organize against what they see as a leftward drift in foreign affairs on the part of the official church in the United States.

The New York-based American Catholic Committee, set up in January by the former labor commissioner, James J. McFadden, has become, Mr. McFadden said, a "lightning rod" for Roman Catholics around the United States concerned that their bishops are steering the church away from traditional Catholic political positions.

The committee, which says it has about 150 active members, was formed after the United States Catholic Conference made public statements critical of U.S. military aid to the government of El Salvador.

But the committee's activities increased recently when the supreme Catholic religious authority in the United States, the National Council of Catholic Bishops, released a draft of a proposed pastoral letter on war and peace. It questioned the use of nuclear weapons under virtually any circumstances and was widely interpreted to be in favor of a freeze on their further development.

The committee recognizes that there is no large-scale movement of lay Catholics on foreign policy matters. Indeed, many Catholics are clearly pleased with the position of the bishops. Others are reluctant to suppose any movement that challenges the bishops' authority.

Yet Catholic scholars and activists agreed in interviews that some of the political opinions expressed by the bishops had aroused the opposition of significant portions of the laity.

In private meetings and receptions, at conferences and in conversations, and in such nascent organizations as the American Catholic Committee, Catholics are engaged in an intense debate provoked by the recent proposed pastoral letter. Moreover, some are concerned about the emergence of a split between the laity and official church on political matters that could reduce the clergy's authority on religion.

"Traditionally," Mr. McFadden said, "Catholics have tended to look to their cardinals to make statements. As a result of what is taking place now, this is going to be the start of Catholic lay people speaking out on political issues."

Some lay Catholics argue that in foreign policy matters, the bishops are now reflecting the anti-authoritarian notions that gained currency in the United States during the 1960s. According to this view, they have moved toward what might be called the trendy left just at a time when other Catholics are becoming more conservative.

To many Catholics, the issue is

an ancient doctrinal one concerning the concept of a just war. What bothers some is that, in casting doubt on the morality of any use of nuclear weapons, even in retaliation against an attack, the bishops have departed from the traditional justification of war when it is in self-defense.

The immediate goal of Mr. McFadden's committee is to see basic changes made in the pastoral letter. This week American bishops are to meet in Washington for the

purpose of considering, and possibly modifying, the present draft.

More generally, though, Mr. McFadden sees the committee's formation as an important step for lay Catholics who want to express themselves politically.

"The net effect of this," Mr. McFadden said, "is that the bishops are going to politicize the church. The more they get involved in political issues, the more of a reaction they're going to get from Catholic laymen."

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John Hayden, a Vietnam veteran from Boston, cried during the dedication of the V-shaped Vietnam Veterans Memorial, lower



right, near the Lincoln Memorial in Washington. An estimated 15,000 sympathizers turned out for the ceremonial parade.

Vietnam War Shrine Dedicated in Washington

Thousands of Veterans, Bitter at Public Indifference, March Past Memorial

By Philip M. Boffey

New York Times Service

WASHINGTON — Thousands of Vietnam veterans marched away from a decade of indifference Saturday and paraded proudly past the White House to a memorial that inadvertently reflects the divisiveness of their unpopular war.

It was a moving scene. Disabled veterans hobbled along with canes, gamely responding to cadence counts; paraplegics wheeled themselves or were pushed; blind veterans listened to reports of what was happening from their friends; and an army of marchers and walkers, dressed in everything from baggy fatigues to camouflage suits to full dress uniforms, or sport jackets, moved slowly along majestic Constitution Avenue, waving tiny American flags and raising their fists in triumph.

The march proved a satisfying catharsis for veterans who have long felt themselves a neglected, discarded army reviled by some as "baby killers," scorned by others for failing to win and ignored by a public eager to forget.

The camaraderie was almost palpable as veterans embraced in the streets or locked hands in ritual handshakes. After years of self-doubt and resentment at public indifference, they were staging their own celebration — a coming out party given by the veterans for the veterans.

But it was not the heroes' welcome — the ticker tape parade with roaring crowds and an

outpouring of gratitude — that many veterans openly long for. Long sections of the viewing stand were half empty, and some blocks along the 10-block parade route had but a single broken line of spectators on each side.

The five-day "national salute to Vietnam veterans" which culminated in Saturday's march to the new memorial, was designed, according to its chief organizer, Jan C. Scruggs, "to stimulate the long overdue national recognition that has largely been denied to those of us who served in our nation's longest war."

But on this raw, blustery morning, with winds gusting enough to spill coffee out of cups and put goose pimples on the short-skirted majorettes, there was little indication that any vast segment of the public has rallied to their cause.

Those who did brave the gusts kept up a steady patter of handclapping, punctuated by bursts of louder applause and cries of "Thank you, Indiana, thank you," or "Yeah, Iowa," or "God Bless you" as the various state delegations passed by.

But every now and then a hint of the old divisions over the war broke forth. James Mahoney, a navy veteran from Washington, was brandishing a sign urging "No More Wars, No More Lies, No More Stone Memorials," when an unidentified soldier from the New Jersey delegation wrenched it from his hands and smashed it on the spot. "He said he didn't agree with me," Mr. Mahoney said later.

Another protester, Peter Poccia, of New York, a former medical corpsman with the Marines, joined other anti-war groups at the end of the line of march, carrying his own hand-lettered sign: "We Killed, We Bleed, We Died for Worse Than Nothing."

The marchers — estimated by the organizers at 15,000, counting Vietnam veterans, veterans of other wars, bands, military units, and other supporters — were led by, among others, retired General William C. Westmoreland, the former commander of American forces in Vietnam. Afterward, General Westmoreland called the march "quite an emotional experience — something I never thought would take place."

But the memorial remains controversial. It is essentially a V-shaped wall of polished black marble on which are etched the names of all 58,000 American servicemen who died in the war, arranged chronologically by date of death.

Almost from the start, strong supporters of the war have complained that the memorial diminishes those it seeks to honor. The V-shape, they say, is reminiscent of the peace symbol flashed by anti-war protesters. The black color, they say, is too negative. The location of the marble slabs, in a depression on the mall, is, they say, offensively inconspicuous, not like the heroic monuments traditionally associated with war memorials.

House Panel to Study New Benefits Financing

By Spencer Rich

Washington Post Service

WASHINGTON — The chairman of the House Ways and Means Committee has said for the first time that he is willing to consider limited use of income and excise taxes to help finance the nation's Social Security system.

Representative Dan Rostenkowski, an Illinois Democrat, said Friday in a letter to all members of the incoming 98th Congress, that his committee would open hearings Feb. 1 on a "refinancing package" in the hope of "bringing a balanced bill to the floor of the House in late March."

Mr. Rostenkowski said he re-

garded July 1 as Congress's "deadline for putting into effect a better balanced tax-benefit formula" for the system, which provides retirement benefits and disability payments. On that date, the huge old-age fund runs out of authority to borrow from the better-off disability fund and the Medicare health insurance fund for the elderly, without further action the old-age fund would dry up.

The borrowing authority was granted by Congress last year as a short-term response to a long-standing financial problem.

In the past, benefits have been financed almost entirely by the 6.7 percent payroll tax for Social Se-

curity. Conservatives generally want to keep it that way, as a discipline on the program. Labor and liberal groups have called for supplementing the Social Security tax with other federal revenues if necessary to keep the system whole.

Mr. Rostenkowski said that federal deficits over the next several years would be too large to permit use of "general fund revenues" for Social Security. But he said, "We must be willing to at least discuss new sources of revenue," such as excise taxes like those levied on crude oil, cigarettes and liquor, and "taxing cash benefits."

Under that system, at least some Social Security benefits would become subject to federal income tax; these limited income tax revenues would then be put back in the Social Security trust fund.

Mr. Rostenkowski's letter was released as the National Commission on Social Security continued to meet on ways to shore up the system; it must make its recommendations by Dec. 31.

Last week Robert J. Dole, the Kansas Republican who heads the Senate Finance Committee, urged the Republican-controlled commission to hold back on recommendations until congressional Democrats have said how they would fix the system. Mr. Dole said he was tired of having the Democrats assail the Republicans for proposing changes, while proposing none themselves.

Mr. Rostenkowski's letter may have been in partial reply. He urged all members of Congress to hold their fire on the subject while the commission and relevant congressional committees did their work.

He also said "radical adjustments to the system are not warranted" since the system was "fundamentally sound" and had been jeopardized only by "a weak economy."

Mr. Rostenkowski seemed to be urging a mix of tax increases and benefit curtailments to save the system. He said:

"We must balance the interest of retirees now receiving benefits with those presently paying into the system. We must carefully weigh the effects of large payroll tax increases on a work force already staggering under the highest unemployment rates since the Depression. We must also measure the effect of any change in the cost of living adjustment to maintain the elderly's protection against extreme economic fluctuations."

Leaders of the bipartisan presidential commission, meanwhile, were trying to negotiate just such a mix of cuts and increases.

The commission agreed Friday to create what its chairman, the economist Alan Greenspan, called an economic stabilizer that would keep income closer to costs in both good times and bad. No specific stabilizer was agreed to, but one such proposal has been to peg the annual cost-of-living increase in benefits to the percentage increase in wages each year instead of the increase in prices, as is done now.

Japan Military Jet Crashes

The Associated Press

TOKYO — A Japanese trainer jet performing Sunday at an air show slammed into the ground, killing the pilot and injuring 11 persons, police said.

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President João Baptista Figueiredo of Brazil, right, and Wellington Loreira Franco, the Social Democratic Party candidate for governor of Rio de Janeiro state, at a recent rally in Nova Iguaçu. Mr. Figueiredo, who is not facing election this year, has promised a return to democracy.

Brazil's Economy Is Chief Concern In First National Voting Since '64

By Warren Hoge
New York Times Service

BRASILIA — A woman in a Rio de Janeiro supermarket stared disbelievingly at some rotting apples in a bin beneath a newly raised price one recent morning. "This will stop," she announced, "once Brazil is governed."

In Brasília, Brigadier General Danilo Venturini, a top aide to President João Baptista Figueiredo, said of the same man, "He personifies the reasons that led to the revolution of 1964."

The subject of both comments was Leonel Brizola, a populist leader who returned to Brazil in 1979 after 15 years in exile in Uruguay, Portugal and the United States. He is one of 37,000 candidates running Monday in the first nationwide free elections since the military seized power in their "revolution" 18 years ago.

To the armed forces, Mr. Brizola is the firebrand who, as a governor and congressman, once expropriated U.S. companies, organized armed political cells, praised Cuban communism, urged enlisted men to imprison their commanding officers and tried to rouse his followers to armed resistance.

To the disgruntled shopper and most other Brizola backers whose enthusiasm for their man has given him a large lead in the polls, he is simply a believable fellow who appreciates the plight of the squeezed middle class and will do something about it.

But despite the radically different reactions to Mr. Brizola — and the deep divisions such attitudes suggest — the campaign has proceeded peacefully. No one can be sure, however, what accommoda-

tions, if any, the central government may be willing to make with newly elected advocates of change. It has been a characteristic of the campaign that ideology has played a small role. Only one of the five parties running, the new Workers' Party of Luis Inácio da Silva, the São Paulo labor leader, has put forward anything resembling a political philosophy.

But this has not lessened the public pronouncements out of Brasília warning of "radicalism" and "revenge-taking" against the military by newly enfranchised civilians.

Hard-liners in the military are said to still feel that the Brazilian underprivileged have no stake in stability and could easily be enticed by candidates proposing extreme solutions to their plight. Some foreign diplomats argue that the gross disparity of income they see around them and the misery in which most Brazilians live should make the citizenry ripe for revolution and susceptible to the lure of "isms."

But the electorate has responded otherwise.

Polls have shown the principal concerns are, in order: unemployment, inflation, crime, public health facilities, government corruption, abandoned children, education and housing. These same polls concluded tellingly that the profile of the typical Brazilian voter is remarkably like that of the typical backer of the military takeover in 1964. In both cases, pocketbook concerns impelled people to look for someone to step in and put the house in order.

In the absence of ideological clashes, many contests have turned on personality as Brazilians have

plunged into the campaign with much of the exuberance they bring to national rites such as Carnival and soccer championships. Streets are full of samba-playing sound trucks and most wall space has long since been given over to political posters.

Mr. Figueiredo is the chief asset of the government's Social Democratic Party and "Lead a hand to João" is the party's official slogan.

If, as predicted, the Social Democrats win 14 to 16 statehouses and a majority in Congress, the credit will be largely the president's. With inflation at 95 percent, unemployment in large cities above 20 percent, foreign debt soaring and business deep in recession, the party has few assets except esteem for Mr. Figueiredo and his promise to return to democracy.

He is not running for anything Monday. But the outcome of congressional and state assembly races will determine the makeup of the electoral college that will formally select his successor two years from now.

In the years of military rule, voting has always been conducted under regulations and prohibitions that assured government victories. This year, too, in the first voting for governors since 1965, the government has imposed conditions designed to aid its candidates.

But the conditions are unlikely to prevent opposition parties from winning key states in the industrialized center-south and a large block of seats in Congress and state assemblies.

There is no assurance, however, that the military will cooperate with opposition victors.

Russia Still Unable to Overcome Iranian Hostility

By R.W. Apple Jr.
New York Times Service

TEHRAN — The influence of the Soviet Union, which many people in the West thought saw in the Iranian revolution an opportunity to win a significant role in the Gulf region, has deteriorated dramatically in the last year.

The standing of France, which sheltered Ayatollah Ruhollah Khomeini and his aides in the final stage of their exile, has also undergone a sharp decline.

Ayatollah Khomeini, the dominant figure in the Islamic republic of Iran, has prescribed a foreign policy with the slogan "Neither East nor West."

At first, it appeared that the East was considered less bad than the West, but lately, in the words of an ambassador from a Western country, "a balance of negatives has emerged."

In one sense, the Soviet Union and its East European allies retain an advantage in that they still have full diplomatic relations with Tehran; only West Germany, among the major Western nations, has an ambassador here. The United States has no representatives at all, while France and Britain have been restricted to small missions.

The case of West Germany illustrates what many diplomats see as a very gradual relaxation in the Iranian attitude toward the West.

Clashes in Germany between pro- and anti-Khomeini Iranian students studying there led to the deportation of about 25 Khomeini supporters and to demands by the hard-line clergy for rigorous anti-German action.

It was a perfect opportunity to break or reduce the level of diplomatic relations or even for a repetition of the seizure of the U.S. Embassy three years ago.

But secular officials in the government reportedly headed off such action. In the end, retaliation was confined to the closure of the Goethe Institute, a German cultural center, and of the German archaeological mission.

Jens Petersen, the West German ambassador, who had been in his own country since an unsuccessful terrorist attempt on his life in February, returned to Tehran this month.

The Soviet intervention in Afghanistan, Iran's neighbor to the northeast, was the first blow to Moscow's prestige in Iran. Discussing it with a Muslim diplomat recently, a senior Iranian official said, "It was a cynical action, just what you would expect from atheists."

"You know, we are the best protection you could have in this area against a Soviet takeover," another Iranian official told a visiting American.

Russians since the time of Peter the Great have enviously eyed Iran's warm-water ports. But a series of events this year have proved discouraging for the new Soviet ambassador, Nikolai Boldirev.

In February, at a revolutionary parade, an American flag was laid in the street for the marchers to tread on. Someone ran out and placed a Soviet flag beside it, and the Soviet delegates stalked away in protest.

On two other occasions — the dedication of a Soviet-financed steel mill in Isfahan and the opening of a trade fair in Tehran — the crowd responded to official speeches with chants of "Death to America! Death to the Soviet Union!"

The government has moved decisively, meantime, to contain the Moscow-backed Tudeh Party. It has closed the party's main newspaper, which had a circulation of about 80,000, and most Tudeh members have been purged from government jobs.

Hojatollah Hashemi Rafsanjani, the speaker of the Iranian parliament, said at a recent news conference that "the Tudeh Party's very ugly record has made it an ill-famed group."

The French are in trouble mainly because they have granted to Ayatollah Khomeini's foes what they once granted to him — a safe haven from which to conduct opposition to the government in Tehran.

The Islamic regime resents the granting of asylum to Bani-Sadr, the first president of the Islamic republic, whose National Council of Resistance is based in Paris, and to the leadership of the outlawed Mujahideen Khalq guerrilla organization.

"Many of these people are crim-

inals," said the foreign minister, Ali-Akbar Velayati, at a recent news conference. "The French are giving shelter to terrorists. But when the Baader-Meinhof terrorists from Germany fled to France, the French police arrested them and sent them back. What is the difference?"

The Iranians were also infuriated by French support for the Iraqis in the Gulf war. They have supplied Roland and Exocet missiles and Mirage jets to the Baghdad regime, with weapons sales in

the first six months of this year reportedly totaling \$1.7 billion. The Iranians sought helicopters and missiles but were reportedly turned down.

According to French sources, French trade with Iran has dropped by half this year.

Iran has permitted Air France to resume weekly flights between Paris and Tehran, but it has withdrawn its agreement to the appointment of José Padiós as the new French ambassador. The Foreign Ministry cited "French support for

terrorists and counterrevolutionaries" as the reason for its refusal to accept Mr. Padiós.

Accused Plotters Sentenced
The Iranian National News Agency said Sunday that two men convicted of plotting to overthrow the Iranian government had been given prison sentences. Reuters reported from London.

Ahmad Abasi, the son-in-law of Ayatollah Kazem Shariatmadari, the country's second-ranking spiritual leader, was sentenced to eight months in prison and 10 years un-

der house arrest. Abdolreza Hezazi, a clergyman, was sentenced to seven months in prison.

Both men were found guilty of plotting with a former foreign minister, Sadeq Ghotbzadeh, to overthrow the government and kill Ayatollah Khomeini. Mr. Ghotbzadeh and two men accused with him were executed in September.

Iranian exile sources said in September that 70 other Iranians were executed in connection with the alleged plot after Mr. Ghotbzadeh was arrested in April.

Iraqis Concentrate Defenses in 3 Border Areas

By Drew Middleton
New York Times Service

BAGHDAD — Iraqi ground and air forces are putting up an active defense against Iranian attacks at three points along the border, according to Western diplomats here.

The diplomats said Iraqi forces were relying on superiority in the air and in artillery to check Iranian probes toward Baghdad. Much of the defense is being concentrated near the Tigris River and near Basra, on the southern front, and around Mandali, northeast of Baghdad.

The Iraqi advantage in modern weapons is offset to some extent, these sources said, by the problems inherent in covering a frontier that is 600 miles long.

The diplomats say the Iraqis realize that their forces cannot be strong everywhere and have accepted a calculated risk that the Iranians cannot mount more than three offensives at any one time.

President Saddam Hussein appeared to recognize this risk in a speech to his cabinet last week when he noted that "our cities and

villages lie within striking distance of troops crossing the frontier." He added that "the longer the war drags on, the more impossible it would be to defend all the territories on the border."

Foreign diplomats and Iraqi officials share the conviction that another major Iranian offensive is unlikely at the moment. The rationale for this is the casualty figures suffered in the two years of fighting.

A diplomat said 150,000 Iranians had been killed, which by rule of thumb would mean a total of 450,000 killed, missing, wounded and prisoners of war. Other estimates put the number of Iranians killed at 60,000. Diplomatic estimates of Iraqi dead run from 36,000 to 44,000.

The latest Iranian attack was launched in the area of the Tigris River near Musayib, a relatively small Iranian force. The sector is about 170 miles southeast of Baghdad, and Iranian progress there would present no serious threat to the capital, diplomats say.

However, Iranian forces might

be able to cut the Tigris River highway, which is one of two roads linking Baghdad and Basra, by driving about 30 miles west from their present positions.

The Iranian attack, which began Wednesday night against a single Iraqi brigade, appears to have been initially successful, according to diplomats. Iraqi fighter planes and French-built Gazelle helicopters armed with guided missiles and artillery finally checked the advance.

Iranian sources said the invaders had at no point penetrated more than three miles, while the Iraqis put their advance at twice that. The attack ended by sundown Thursday, the sources said.

The Mandali sector is reported relatively quiet after an initial Iranian penetration of two or three miles. According to an Iraqi commander, Iranian artillery has shelled Mandali intermittently since ground attacks ended.

The third active front, east of Basra, is also quiet. There has been desultory shelling by Iranian artillery from positions about a mile and a half inside Iraqi territory.

The Iraqis have replied with planes and helicopter gunships.

Diplomats noted two significant aspects of the fighting. One is that the Iraqis have discarded their tactics of large-scale attacks, no more than 20,000 around Mandali and fewer than that on the Tigris River.

The other is that the Iraqis have not used the Revolutionary Guards, who customarily attack in waves and take heavy losses.

Iran has a population of 41 million; Iraq, 14 million.

Casualties have affected the Iraqi civilian population more than any single factor. A diplomat said there was hardly a family that remained untouched. The war's early popularity has waned as casualties in these countries in time of conflict have been largely withdrawn to Iraqi territory.

However, there are no top shortages, the diplomat said, and popular opinion is stimulated by rallies in support of President Hussein and by frequent exhortations to stand firm.

New Afghan Airfields Called a Threat to Gulf

By Richard Halloran
New York Times Service

WASHINGTON — U.S. military analysts and Middle Eastern diplomats say the Soviet Union has nearly completed six airfields in southern Afghanistan that the first time will put the Gulf within range of Soviet jet fighters.

The officials said the airfield construction underscored a vital mission of Soviet forces in Afghanistan. When the Soviet Union intervened militarily in 1979, Soviet diplomats here said the move was intended only to ensure the survival of an Afghan government amenable to Moscow.

Now, U.S. officials say, the Soviet Union appears intent on turning Afghanistan into a forward base for Soviet military forces, particularly air force units, on the eastern flank of the oilfields around the Gulf.

The chairman of the Joint Chiefs of Staff, General John W. Vessey Jr., said Friday that the United States would watch Soviet

moves in Afghanistan "for the first indication of a change in Soviet policy" under the new Soviet leader, Yuri V. Andropov.

A withdrawal of the 100,000 Soviet troops from Afghanistan "would certainly be a good sign for them to make to the rest of the world."

But General Vessey said the Soviet Union had given every indication that the nature of the intervention in Afghanistan had changed and that Soviet forces were settling in for a long occupation.

The general did not mention the new Soviet airfields. But other officials and diplomats said the bases would present at least two new dangers.

One would be a threat from Soviet fighter-bombers to the oilfields and shipping installations around the Gulf and to oil tankers passing from the Gulf through the Strait of Hormuz into the Arabian Sea.

The second would be to create more problems for the U.S. Rapid Deployment Force that is sched-

uled to become a full-fledged, unified military command on Jan. 1.

Until recently, the force has concentrated on plans for blocking a possible Soviet invasion from the north. Now it must take into account a new danger from the east.

In time of conflict, fighters and fighter-bombers from the dispersed Soviet airfields in Afghanistan would constitute a new threat to United States air, sea, and ground operations. Countering that threat would probably take more air wings than the 10 currently planned.

The United States has no air bases in that region, and prospects for gaining access to any are limited, officials said. The navy now has an aircraft carrier in the Indian Ocean with up to 100 planes aboard. In a crisis, two more carriers would probably be deployed.

The Reagan administration has given high priority to gaining access to air bases in Turkey, an American ally in the North Atlantic Treaty Organization, and recently reached an agreement under which the United States would im-

prove about 10 bases and have access to them for training.

Military planners have said they hope American planes will be able to use those bases to fly interdiction missions against Soviet forces in the event of an invasion of Iran. But they have acknowledged that the Turkish government has shown little enthusiasm for the proposal.

The planners have also indicated they hope Saudi Arabia or Oman will permit U.S. aircraft to use bases in those countries in time of conflict, but they acknowledge much resistance to the idea by the two governments.

An early indication of the Soviet military expansion in Afghanistan came last July from Afghan insurgents who said the Soviet Union had begun building an airbase in Shindand, in western Afghanistan. They also reported that Soviet forces had enlarged the storage depot at their base in Kandahar in southern Afghanistan. The new bases were said to be strung out mostly between Kandahar and Shindand.

U.S. Acts to Guard Oil Firms' Interests in China

This article is based on reporting by Patrick E. Tyler in Washington, Tracy Dahly in Tokyo and Michael Weisskopf in Beijing. It was written by Mr. Tyler.

WASHINGTON — The Reagan administration has made a series of diplomatic contacts during the last six weeks to protect the competitive position of U.S. oil companies in the multibillion-dollar bidding battle to develop China's vast offshore oil reserves, according to knowledgeable officials.

The contacts followed intelligence reports in late September that Japan was seeking a favored position in the bidding by offering \$400 million in new economic aid for oil development elsewhere in China.

The State and Commerce departments and William E. Brock, the U.S. trade representative, have expressed grave concern about the integrity of the bidding process to Chinese and Japanese officials through senior embassy personnel in Beijing, Tokyo and other Asian capitals.

At stake are drilling rights to China's offshore deposits in the South China Sea near Hong Kong. "In the oil industry, it is seen as one of the last great oil plays for the rest of this century," said Daniel Yergin, the author and energy lecturer at Harvard University.

Led by Exxon, Mobil, Texaco and Chevron, American compa-

nies have invested about \$200 million in seismic testing since 1979 because of China's promise that one-third of charted drilling tracts will be awarded to foreign companies in an open competition.

Although U.S. officials sought and received assurances from China that the bidding process will be conducted fairly, they said they cannot evaluate the impact of the Japanese initiative until late this year.

The episode shows how U.S. diplomatic, intelligence and private industry officials regularly work together to protect U.S. commercial interests. It also provides a view of the emerging economic alliance between China and Japan, whose relations have been chilly since World War II.

The possibility of a new Asian alliance was central to discussions between Japanese and Chinese leaders in late September.

U.S. officials said that during a Sept. 26 discussion in Beijing between Zeng Zao, who was then Japan's prime minister, and Prime Minister Zhao Ziyang of China, Mr. Suzuki mentioned Japan's recent \$400-million funding commitment to an oil development project in northern China. He then reportedly requested "special consideration" for Japanese drilling concerns competing against American companies in the South China Sea.

The Chinese prime minister's response was positive but not defini-

tive, U.S. officials said. "The Chinese haven't done anything yet," an official said. "But at least initially, Zhao gave the wrong reply in private" to Mr. Suzuki, suggesting Chinese approval of the arrangement, the official said.

Following initial intelligence reports, U.S. officials had no immediate pretext for approaching the Chinese and expressing concern. But Mr. Brock was said to have raised the matter "delicately" with Shintaro Abe, Japan's minister for international trade, at a private dinner during the first weekend in October.

Days later, however, U.S. officials received translations of the dialogue between Mr. Suzuki and Mr. Zhao as it was released to the Japanese press.

These public reports were

enough on which to act, a U.S. official said. The U.S. concerns were then conveyed through U.S. embassies in Beijing and Tokyo and consulates in Shanghai, Guangzhou and Hong Kong.

In Washington, the Japanese Embassy would not comment on the reports, but officials in Tokyo denied that the \$400-million commitment to the Bohai Bay development project was intended as an effort to gain special favor.

One U.S. oil company official in Tokyo suggested that Japan was using other investments as a lever on the Chinese but emphasized he did other officials, that American oil companies are not likely to be excluded from the South China Sea development because U.S. drilling technology surpasses that of other interested nations.

U.S. Groups Offering Aspirin Caution Labels

By Christine Russell
Washington Post Service

WASHINGTON — Five health and pharmaceutical groups have launched an effort to accomplish what the government has so far failed to do: put labels on aspirin warning against its being given to children with chicken pox and flu.

The red stickers, which warn of an association between aspirin and a life-threatening disease called Reye's Syndrome, would be made available immediately at a fraction of a cent each to wholesale drug distributors.

The distributors will be urged to use the warning labels now, as the flu season is beginning, rather than wait until the Reagan administration completes action on a proposed label requirement that is not expected to go into effect before spring.

"We're doing what should have been required," said Dr. Sidney Wolfe, director of the Health Research Group, a consumer organization founded by Ralph Nader that is heading the labeling campaign.

Dr. Wolfe said Thursday that the effort also was backed by the American Public Health Association, the American Pharmaceutical Association, the National Wholesale Druggists Association and the National Association of Chain Drug Stores, which he said represented most wholesale druggists.

But Dr. Joseph White, president of the Aspirin Foundation, an educational group funded by the industry, called the labeling campaign "impractical." He main-

tained Thursday that studies showing the association with Reye's Syndrome were "not properly run."

The Food and Drug Administration deputy administrator, Dr. Mark Novitch, said Thursday that the government proposal to require warning labels on products containing aspirin was still awaiting approval and that "careful study" would be given to the warning label, which has somewhat stronger language than the government's proposal.

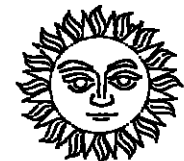
Reye's Syndrome is a mysterious disease that strikes at many as 1,200 children a year in the United States. It begins with vomiting and progresses to coma and death in more than 20 percent of the cases, with permanent brain damage in others.

Meanwhile, the American Academy of Pediatrics, which previously warned about the "high probability" that aspirin may help cause the disease, appeared to be backing off from that stance.

The group's executive director, Dr. Harry Jenkinson, confirmed Wednesday that its executive board agreed last week that aspirin labeling should be delayed until there is more conclusive evidence of a link to the disease.

Toy Factory Burns in India
United Press International
NEW DELHI — A plastic toy factory burst Sunday, killing nine employees, police said. Officials said the cause of the fire had not been determined.

l'essentiel.
le commentaire.



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SENIOR EXECUTIVE POSITIONS

Published every Monday, this is a compilation of senior positions published in the INTERNATIONAL HERALD TRIBUNE and other selected publications. Comments concerning this feature can be addressed to Juanita Caspari in Paris.

POSITION	SALARY	EMPLOYER	LOCAT.	QUALIFICATIONS	CONTACT	Source
FINANCIAL CONTROLLER		The General Electric Co. Ltd. of England.	France	Exp. of Fin. & Mgt. accts. practices; keen accountancy; exp. in Int'l Co. Fin. Mgt.; Personal function as asset.	President Director General, ref. C/1, Paris 1984, International Herald Tribune, 25221 Monthly Index, France.	INT. 4-11-82
EUROPEAN Manufacturing Consultants		Benz, Allen & Hamilton.	London, Amsterdam, Milan/Paris	Exp. in prod. engineering; industrial engineering; systems & logistics; CAD/CAM & robotics; cost acctg.; Eng. +; 27-32.	Keith Oliver, Benz, Allen & Hamilton, 30 Charles II St., London SW1Y 4AE.	Financial 4-11-82
SR. PETROLEUM RESERVOIR ENGINEER		DAPEC.	Hawaii	Ph.D. in petroleum engineering + 4 yrs. exp. pres. in Res. of Res. M. Sc. in pet. eng. + 7 yrs. exp. Res. M. Sc. in pet. eng.	Personnel Officer, DAPEC, Box 24581, Safet, Hawaii.	INT. 6-11-82
Marketing Relations Pu. Diplomatie	FF 380,000 +	Groupe Schneider.	Paris	Experienced in the field of 35 yrs.; excellent education & presentation; solid cultural business Int'l; Fr., Eng.	Belgita Mandelieu, ref. 00 871, L.L.C., 3 Rue de Poethière, 75009 Paris.	INT. 6-11-82
MARKETING EUROPE		USA top 100 multi-industry co.	Brussels	Extensive practical European marketing exp. in packaged foods; extensive travel; Eng. + Span. & Fr.	Box 11550, International Herald Tribune, 52521 Monthly Index, France.	INT. 6-11-82
BUSINESS ENGINEER	Interesting	Multinational pharmaceutical co.	Italy	Approx. 10 yrs. in similar field; Eng. Fr. + Ital. or Span.; frequent travelling.	Petrolcare Corp., Suite 100, 1211 Geneva.	INT. 9-11-82
EXECUTIVE DIRECTOR		The Association of Tennis Professionals.	Int'l travel.	Seasoned executive with sports background; familiarity with the business & the aspects of prof. tennis; bus. or legal exp.	Box 11557, International Herald Tribune, 52521 Monthly Index, France.	INT. 9-11-82
DIRECTEURS DE FILIALES		Compagnie Int'l de Restauration.	Ab. Beirut, M.D. Asia Amer.-Lat.	Experiences de prospection, de négociation et de pres. pour l'Ind. Supérieure; présidents exp. Int'l en négociation; Fr., Ang.	Francis Meyer, ref. 188, Meyer & partenaires, 100 Cours Julien, 13006 Marseille, Tel. (01) 48 36 94.	La Marse 10-11-82

WORLDWIDE ENTERTAINMENT

PARIS	
LES 2 MEILLEURES SOIRÉES DE PARIS	
NOUVELLE REVUE COCOCO I	FRÉNESIE
LIDO	MOULIN ROUGE
20 h 30 Dîner dansant champagne et revue	20 h 00 Dîner dansant champagne et revue
335 F	335 F
22 h 30 Revue et 0 h 30 champagne	22 h 00 Revue et 0 h 00 champagne
230 F	230 F
PRIX NETS-SEVEN COMPRI	PRIX NETS-SEVEN COMPRI
NORMANDIE	MONTMARTRE
116 bis av. des Champs-Élysées	Place Blanche
563 11 61 et agences	606 19 19 et agences

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Spadolini's 2d Resignation in 3 Days Accepted

By Henry Kamm
New York Times Service

ROME — Prime Minister Giovanni Spadolini resigned Saturday for the second time in three days, and President Sandro Pertini announced that he would open consultations Monday to designate a new cabinet.

It would be Italy's 43d government since World War II.

On Thursday, when Prime Minister Spadolini first handed in his resignation, the president, in a startling move, refused to accept it, and ordered Mr. Spadolini to submit the issue to Parliament.

In two days of debate, the legislators reached agreement on only one thing — that the cabinet, Mr. Spadolini's second since he was first named prime minister in June 1981, could not be salvaged.

Mr. Spadolini has headed a five-party coalition whose major partners are the Christian Democrats, the largest group in Parliament, and the Socialists, the third-largest after the Communists. The prime minister represents the Republican Party, a minority faction.

Increasing rivalry between the two principal partners plagued the first Spadolini cabinet and brought about its fall in August.

For the first time in Italian post-

war political history, the search for a successor proved so difficult that not only Mr. Spadolini but also his entire cabinet were returned to power for want of an alternative. The briefness of the respite is seen as a symptom of the paralysis of the present balance of parliamentary power.

The search for a new prime minister is expected in all quarters of Italian politics to be difficult, even by the standards of a country that appears to have tried all possible changes in parliamentary government in nearly four decades.

Mr. Pertini is believed to have acted in his attempt to save the Spadolini government out of fear that in the midst of deepening economic crisis Italy can afford neither a long interregnum nor the even-greater upheaval of a divisive election campaign.

The present Parliament was elected to serve until 1984, but even before the new crisis erupted few politicians believed that elections could be held off until then. A belief is growing that Italians will go to the polls next spring.

Despite the announcement that consultations on a new leader would begin on Monday, the 86-year-old president met with one of the possible candidates shortly after Mr. Spadolini left his office.

Mr. Pertini received Amintore Fanfani, the Senate president and a former prime minister.

The formal purpose of the meeting was to instruct Mr. Fanfani, who will represent the president at the funeral of the Soviet leader Leonid I. Brezhnev. But it was officially announced that the crisis had also been discussed.

Mr. Fanfani has been frequently mentioned as the possible head of a compromise cabinet — between a government of largely nonpolitical experts and a government of politicians. Although a Christian Democrat, Mr. Fanfani's experience and present post have given him the reputation of an elder statesman who is above party politics.

Under Mr. Spadolini, the Christian Democrats have been deprived for the first time since the war of holding the job of prime minister.

Rivalry between the Christian Democrats and the Socialists has centered on differences in approach over whether to cut or in-

crease public spending to lessen growing inflation and unemployment.

But what was perceived by the Italian public was largely a partisan, often intensely personal, political rivalry. The economic issue was rarely discussed in public by politicians or explained in the widespread press coverage.

"I think you would be unwise to go after specifics," an ambassador, given to understatement, advised an inquiring reporter.

■ 19 Seized as Guerrillas

The Associated Press reported from Rome that police said Saturday 19 suspected Red Brigades members were arrested and one was killed in a major anti-terrorist drive throughout Italy last week.

An unidentified suspect fell to his death from an apartment building while trying to escape during a raid Thursday night in Cinisello Balsamo, near Milan, authorities said. Three other suspected guerrillas were also arrested, the police said. No other details were immediately available.



Giovanni Spadolini

The police also said 10 suspected members of the leftist gang had been arrested in Naples, but no details were released. Six others were arrested in the Frabosa Soprana area, near Turin, investigators said. The investigators also said they had seized arms, ammunition and documents.

Space Walk Set for Today After Delay

Harry F. Rosenbath
The Associated Press

CAPE CANAVERAL, Florida

The four astronauts of the space shuttle Columbia headed their gear Sunday for the first American space walk in nine years, as two Soviet cosmonauts coasted to an endurance record in orbit.

The cosmonauts had logged 186 days — more than six months — aboard Salyut-7.

The American space walk, scheduled for Monday at 1550 Greenwich Mean Time, will depend on the condition of one of Columbia's two mission specialists, William B. Lenoir. His motion sickness on Saturday forced the National Aeronautics and Space Administration to delay Sunday's space walk for one day. He worked Sunday without complaint.

"We are absolutely confident that Bill is going to be feeling well," said Tommy Holloway, flight director.

As Columbia moved through the third day of its five-day flight, Anatoli Berezovoy and Valentin Lebedev, in orbit since May 13, broke the two-year-old manned space flight endurance record set by two cosmonauts aboard the Salyut-6 space station. Mr. Lebedev was the last man to take a space walk, on July 30.

In Houston, a fire knocked out one of four power panels feeding electricity to Mission Control after



William B. Lenoir, a Columbia astronaut, catches a peanut tossed by Joseph P. Allen, the other scientist aboard the shuttle.

the astronauts went to sleep Saturday night. There were no problems for the flight, but computer displays in Houston went dark for 20 minutes and NASA was unable to feed data into Columbia's computers for more than 10 minutes.

Sunday was a light day aboard Columbia because flight officials had swapped Sunday and Monday activities when Mr. Lenoir became nauseated with motion sickness.

Television showed Mr. Lenoir — looking stronger and far happier than on Saturday — floating barefoot, with a board clipped to his pants. He took part in an electro-oculogram experiment — a previously scheduled test to help solve the question of why so many astronauts become ill in weightlessness.

SBS-3, the first of two satellites deployed by Mr. Lenoir and Joseph P. Allen, the flight's other

mission specialist, was locked into its stationary position Saturday, 22,300 miles above Earth, by the firing of a spacecraft rocket. The second satellite, Anik C-3, will be arrested in its geosynchronous orbit on Monday.

Columbia is scheduled to land Tuesday on the concrete runway at Edwards Air Force Base, California, its mission a success with or without an astronaut excursion into space.

The space walk will be the first by an American since Skylab-4 in February 1974. Its purpose on this flight is to test new space suits, tools and the ability to work outside the shuttle. The astronauts will also work with torque wrenches and a winch and evaluate handholds, safety ethers, spacecraft communications and television.

Economies Must Grow, Europe's Socialists Say

Reuters

PARIS — European Socialist parties have adopted a resolution calling for a program of economic expansion to pull the Continent out of recession and for cooperation on military security.

The proposals were made in a resolution adopted Saturday by Socialist and Social Democratic parties in the European Community at the end of a congress aimed at forging a joint economic strategy.

All 16 member parties except the British Labor Party backed a resolution that blamed monetarism and conservative deflationary policies for the crisis in Europe and said the European Community had failed to meet the needs and aspirations of its citizens.

The resolution condemned nationalism and protectionism and set out a program for integrated European industrial, monetary, regional and social policies that party leaders said would generate growth and employment.

The Dutch Labor Party leader, Joop den Uyl, who was chairman of the Congress of the Confederation of Community Socialist Parties, said the resolution marked "a clear decision to have inflationary policies at a European level."

The Socialist leaders pointed to agreement on a common text on European security as a major achievement at the congress.

olution implied consultations on security in a broad sense rather than to strict military terms.

The British Labor Party, which is committed to leading Britain out of the European Community, participated in the debate. A spokesman suggested the party could change its mind about withdrawing if the Community was reformed.

France Approves Military Budget

Reuters

PARIS — The National Assembly has approved a 1983 military budget of 133.2 billion francs (\$18.2 billion), 8.4 percent higher than for 1982, an increase about equal to the government's expected rate of inflation.

The government is aiming to bring French inflation down to 8 percent next year from the current level of 10.2 percent. Total 1983 government spending is planned to rise 11.8 percent to 881 billion francs.

The full budget approved on Saturday for the Defense Ministry was 159 billion francs, including pension payments administered in the 1982 budget by the Finance Ministry.

U.S., Nigeria Fail to Find Accord

Split on Namibia Remains After Visit to Lagos by Bush

Washington Post Service

LAGOS — The United States and Nigeria, black Africa's most influential state, remain widely divided on their approaches for achieving South-West Africa's independence from South Africa, according to a joint communiqué issued after nearly two hours of talks between Vice President George Bush and Vice President Alex Ekwueme of Nigeria.

In the communiqué, issued Saturday, Mr. Bush was said to have reviewed with Mr. Ekwueme efforts to remove all foreign forces from southern Africa, a clear reference to U.S. support for the removal of Cuban troops from Angola as a step toward neighboring South-West Africa's independence.

Mr. Ekwueme, on the other hand, reiterated Nigeria's position that Cuban troops in Angola must not be a condition for the independence of the territory, which is also known as Namibia.

In response to questions after the joint statement was read, Mr. Bush and Mr. Ekwueme said that their governments continue to differ on how best to bring about change in the South African government's policy of apartheid.

"There are some differences that we spelled out, faced up to very frankly," Mr. Bush said at a news conference.

Mr. Ekwueme said that in con-

trast to U.S. policy, Nigeria "believes in mandatory sanctions because we believe that is the shortest way to get South Africa to 'reassess' and change the apartheid system." "We would like American policy to change" regarding sanctions, Mr. Ekwueme continued, "but we will continue to hold a dialogue with the United States" on South African issues.

Mr. Ekwueme returned to the Namibian issue in a dinner toast Saturday night, making barbed references to the two nations' disagreements.

"South African intransigence is not so much concern for the presence of troops as a rise to further delay the independence of Namibia — and what the apartheid regime itself seems to admit — the inevitable triumph of the South-West African People's Organization in any free and fair elections," Mr. Ekwueme said to Mr. Bush.

"We have seen the South Africans stall before. One may rightly ask: What next, Mr. Vice President?"

SWAPO is a political organization and guerrilla force fighting to end South Africa's control over the territory, which was put under South African jurisdiction by an expired League of Nations mandate that has been repudiated by the United Nations.

Mr. Ekwueme also said that from his discussions with Mr. Bush "it was evident, nonetheless, that some progress has been made on Namibia." Nigerians "trust that your administration will exert all possible pressure on South Africa to ensure that no further setbacks are encountered," he added.

Mr. Bush said at the dinner that Namibia's independence "is one of the highest priorities of President Reagan's administration" and is a problem that "will have our total dedication and determination."

Escaped Convict In U.S. Confesses To 33 Slayings

United Press International

FAYETTEVILLE, West Virginia — An escapee from an Illinois prison who was arrested in West Virginia has confessed to killing 33 people because he wanted to "get it off his chest," authorities said Saturday.

Bruce A. Davis, 34, arrested last month in a West Virginia town where he once lived, was flown back Saturday to Illinois, where he allegedly killed a prison official with an ax during an escape Oct. 24 from the Menard Maximum Security Penitentiary.

Authorities confirmed that at least 12 of the killings Mr. Davis said he had committed had occurred in Los Angeles, Reno, Nevada, New York and Washington. They said Mr. Davis began talking about the killings about four days after he was picked up in the town of Smithers on suspicion of tampering with a car.

No charges were filed in West Virginia in connection with the confessions.

Meeting to Discuss Vatican Finances Set by Cardinals

The Associated Press

ROME — A committee of 15 cardinals looking into the Vatican's financial problems, the committee, headed by the Vatican secretary of state, Agostino Casaroli, announced after its last meeting in March that the Holy See had a record deficit of more than \$30 million in 1982.

The commission and the College of Cardinals are also expected to take into the Vatican bank's involvement in the collapse of Banco Ambrosiano. The bank was forced into liquidation Aug. 7.

Egypt, Sudan to Boycott Libya Summit, Calling Qadhafi's Policies Subversive

United Press International

CAIRO — Egypt and Sudan will boycott the Nov. 23 African summit in Tripoli, Libya, to protest Libya's "subversive" policies in Africa, Butros Ghali, state minister for foreign affairs, announced Sunday.

Mr. Ghali accused the Libyan government of Colonel: Moamer Qadhafi of providing weapons to "secessionist movements" in Sudan in the past weeks. "Egypt and Sudan will not attend the Tripoli summit because of Libya's subversive policies in Africa and other parts of the world and its violation of the Charter of African Unity," he said.

He said the boycott did not mean a boycott of the Organization of African Unity. "But we refuse to take part in the Tripoli conference to affirm to African public opinion our opposition to Libya's destructive policy, particularly since Libya provided weapons during the past few weeks to secessionist movements in Sudan," he said.

The OAU summit was originally scheduled for July and August in Tripoli, but it failed to achieve a quorum when several members stayed away to protest the admission of the Polisario Front, which is fighting Morocco for control of Western Sahara.

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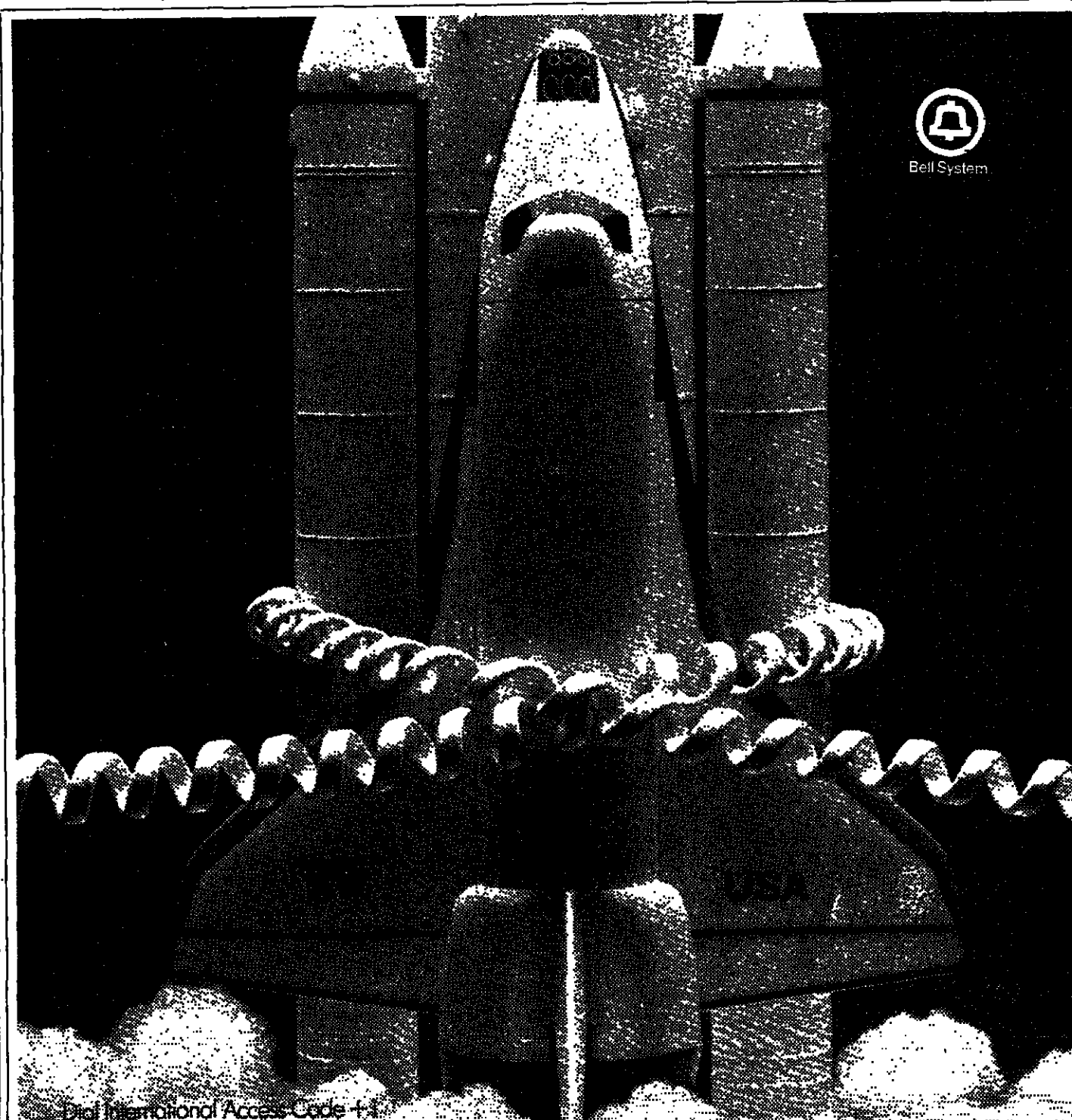
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Herald Tribune

Published With The New York Times and The Washington Post

A Missed Opportunity

The swiftness of the Soviet succession surprised the commentators, including us. Chastened, we decline to predict whether Yuri V. Andropov will be hard or soft, détente or warmonger in his new role as party chief. What is clear, depressingly so, is that President Ronald Reagan is passing up a precious chance to establish a personal tie with the new order, claiming that business and protocol leave no room for attending Leonid I. Brezhnev's funeral.

Imagine otherwise. Suppose Mr. Reagan had said this at his news conference: "I have only one announcement. We've learned of the death of President Brezhnev, and that could mark a watershed. I think you'll agree that a leader must recognize great opportunity — and so Nancy and I will go to Moscow for the funeral if invited."

But the president showed no such sense of history. He has lost a chance to present himself to the Soviet people as something more than a distant, sour voice. The personable Ronald Reagan, whose manner humanizes his doctrines, could be as effective on Soviet television as Nikita S. Khrushchev once was in the United States.

Mr. Reagan's sense of propriety deserted him, too: more was required by Mr. Brezhnev's death than a pithy and amiable announcement, followed by a tired reference to East-West relations as a tango. It will be news to Iowa farmers that he lifted the grain embargo as a favor to Moscow. Nor is it fair to lay all the blame on the other fellow for not backing up détente with deeds. Who, after all, failed to ratify SALT-2?

Even if Mr. Reagan does not go to Moscow, tone is vital. Hectoring a defensive new leadership may cause it to cling to policies it wishes to modify or discard. No one sensibly expects an abrupt reversal of Mr. Brezhnev's policies, but a shift in leadership can loosen the knots in East-West diplomacy.

What kind of Communist is Yuri Andropov? How solid is his hold? Given the survival value of circumspection in the Kremlin, who can say? Nikita Khrushchev's early career gave no sure clues about his crest. Mr. Andropov is said to be more flexible than his rivals, more knowledgeable about the West and more committed to resuscitating détente. These would be signals:

● In Afghanistan, an effort finally to wind up the bloody and unpopular intervention that is known as "Brezhnev's war." The key is a willingness to come to terms with Islamic insurgents that a puppet government has been unable to vanquish.

● In Poland, an end to martial law coupled with a Soviet decision to allow more power for liberalizing experiments — as in Hungary where Mr. Andropov sanctioned steps to social peace through some expedient concessions.

● In Geneva, a more forthcoming Soviet offer on Mr. Reagan's START proposal to cut the number of strategic weapons, as well as in talks on limiting medium-range missiles in Europe.

● In the Soviet Union, relaxation of the barriers to emigration and civil treatment for dissidents like Andrei D. Sakharov and Anatoli Shcharansky.

Whether Mr. Andropov has the desire, or power, to accelerating any of this is open to question. He is 68, a former head of the KGB, as orthodox in his public utterances as all his Politburo comrades. His notion of détente may be as a hunting license for Soviet gains, in the mode of Mr. Brezhnev, who sent armies to Central Asia and Africa while looking to Western banks and American grain to underwrite a founding economy.

But why not listen before prejudging? Why is the president so determined not to go to Moscow? Why not seize the moment? Yes, it does take two to tango — but right now, the dance floor is in Moscow.

—THE NEW YORK TIMES.

Walesa and the Sanctions

The release of Lech Walesa came so close to the death of Leonid I. Brezhnev that it was probably not a direct result of it. More likely, it resulted from the evolution of a Polish strategy already well in train. Nonetheless, it happened on Yuri V. Andropov's watch, and so did Ronald Reagan's indirect reaction to it — his announcement that the pipeline sanctions are to be lifted in favor of a broad new allied approach to East-West trade. So with no one having apparently planned it that way, things are a little different already.

It is a joy to have the valiant Mr. Walesa rejoin his family after 11 months as a political prisoner. He does seem, however, to be going home on the regime's terms, not his own. He had wanted to be released to speak for Solidarity in a "dialogue" with the government and the Catholic Church. The government refuses dialogue. Last month, it banned Solidarity, having only suspended it earlier. It has arranged a separate peace of sorts with the church, agreeing to clean up its act enough to allow Pope John Paul II to visit next spring and obtaining the church's favor for "social peace" — an easing of anti-regime worker demonstrations and anti-worker regime repression. The government waited to release Mr. Walesa until it had successfully intimidated workers into ignoring an underground Solidarity strike call. It made clear it was sending him home not as anybody's representative but as a private man.

A further release of prisoners is expected, and martial law may be formally ended soon — all of this done not by negotiation and reconciliation but by government manipulation and decree. This raises a real question for the Polish workers' movement. It will also test Solidarity's foreign friends.

Plainly, the regime hopes to argue that it is solving the Polish crisis and, therefore, there is no further reason for the West to deny economic cooperation on political grounds. The

seductive argument will be heard that the best way for the West to help the unfortunate Polish people is to restore its pre-crisis involvement in the Polish economy. One can expect the allies soon to be urging Washington to accept this viewpoint.

The Reagan administration's first reaction to the Walesa release, on Friday, was to worry that it was being trapped by the Poles. Its second reaction was the Reagan announcement ending the sanctions on the Siberian natural-gas pipeline.

The pipeline decision was the right one. The United States was on the way anyway to lifting the sanctions: This was the whole point of the talks the State Department had been conducting with the allies on a new common approach to East-West trade. The release of Mr. Walesa appears merely to have advanced the date on which success in achieving a new approach would be announced. Mr. Reagan was wise to define the new accord as one of principles: to restrict trade that contributes to a Soviet "military or strategic advantage" or that constitutes "preferential aid." The unavoidably contentious work of determining how these principles will be applied remains to be done.

But this is not an argument against the Reagan decision. In the evolving Polish circumstances, it was bound to be increasingly difficult, and increasingly less worth the escalating effort it would surely take, to try to maintain a united Atlantic front on anti-Polish and anti-Soviet sanctions. It was past time to deflate the Polish issue as a source of tension in the alliance, which has other, more important tasks before it in the military as well as the economic realm. That this sequence was not designed in the first instance as a gambit for the Soviet transition, moreover, does not mean nothing good can come out of it in that context.

—THE WASHINGTON POST.

Other Opinion

And Now Andropov

Mr. Yuri Andropov's sleepy, almost dourish, look belies a man of broad experience, keen intellect and long responsibility for the dreaded KGB organization. In many ways he is formidably equipped for supreme office, and though already 68 and therefore unlikely to hold power as long as his predecessor, he appears to be more than simply a stopgap to carry on the Brezhnev policies until a new strong man emerges.

The Soviet party has made a credible choice. Mr. Andropov's work as head of the KGB is unlikely to discredit him any more than George Bush's past association with the CIA tarnishes the office of U.S. vice president. The new Soviet leader is believed to be a highly intelligent man.

As KGB head, he conducted a drive against corruption that led to inquiries earlier this year into the affairs of some members

and friends of the Brezhnev family. He may therefore claim a degree of rectitude not associated with some of Mr. Brezhnev's closest associates in recent years.

—The Sunday Statesman (Calcutta).

Warsaw's Motives

Will Lech Walesa's release be the first of several steps by the communist regime to make peace with its own people? Or does it reflect confidence that the liberalization movement represented by Solidarity is indeed dead, and that Walesa's only role will be to help bring the Polish people to that view?

It is hard to escape the conclusion that in fact Walesa's release was part of a bargain under which Pope John Paul II was invited to visit Poland next June and the Catholic Church urged Poles not to heed a call by underground leaders for a general strike Wednesday. The price thereupon fixed.

—The Los Angeles Times.

A Tyrant but No Monster, Brezhnev Knew War's Cost

By James Reston

BONN — By an odd coincidence, the Soviet government announced the death of Leonid I. Brezhnev on Armistice Day, when the Allied nations pause to remember that more than 50 million people were killed in the two world wars of this century.

The symbolism of the day is worth noting, for whatever else may be said against him, Mr. Brezhnev never seems to have forgotten this simple appalling fact, and even when he was drifting into the shadows at the end of his life, he was still muttering vaguely about the importance of avoiding a third world war.

His actions over the 18 years of his dictatorship, of course, were quite different. He was a tyrant, but unlike Stalin, he was not a monster. He kept the Soviet people in a tunnel, like the tunnel in Afghanistan, and at the slightest thump of danger, sealed it off.

Also, he extended Soviet power into Africa, Central America, the Mediterranean, and most of the oceans of the world — even into the reaches of outer space.

In addition, he produced the so-called Brezhnev doctrine in Czechoslovakia — all Communist states must fight against any external internal threat to any one of them — and proved that he meant it by trying to stamp out freedom in Poland.

Yet something in his memory about the carnage of the two world wars made him avoid a direct military confrontation with the United

States. Ask former Presidents Richard M. Nixon, Gerald R. Ford or Jimmy Carter. They will all testify that despite all the horrors of Mr. Brezhnev's policies at home and abroad, maybe they should have talked more directly and personally to him, as Mr. Nixon did to break the stalemate with China.

Zbigniew Brzezinski, President Carter's assistant for national security affairs, recently remarked that "the greatest foreign policy mistake" of the Carter administration was that not until near the end when Mr. Carter and Mr. Brezhnev met at Vienna, did Mr. Carter ever say to Mr. Brezhnev personally: "This is what we can do to help assure peace, and this is what we cannot and will not do to tolerate."

Now there is a changing of the guard in Moscow and the question is how the allies in general and President Reagan in particular should deal with Yuri V. Andropov, the new general secretary of the Soviet Communist Party.

Here in West Germany, the view is that we should be calm but quick. The death of Mr. Brezhnev has been coming on for years, officials here say.

Increasingly, it has been clear when Mr. Brezhnev was in Bonn, that he was in charge only at the beginning of meetings, and thereafter left all questions to Foreign Secretary Andrei A. Gromyko or other aides; occasionally he was

startled out of his weariness and asked those around him what was being discussed.

Prime Minister Indira Gandhi of India had this same impression during her recent visit to Moscow, and she passed on her view to Prime Minister Margaret Thatcher in London.

So the assumption in Bonn, at least, is that the transition from Mr. Brezhnev to some sort of collective leadership under Mr. Andropov has been going on for a long time, and there is now a chance for a new beginning.

Former Chancellor Helmut Schmidt said in a talk Saturday in Bonn that a great deal would depend on the approach Mr. Reagan takes to Mr. Andropov.

He welcomed the president's funeral statement and hoped that the United States would move quickly now to try to break the stalemate on nuclear arms control and East-West trade, but he thought Mr. Reagan's refusal to go to the Brezhnev funeral was unfortunate.

It would have been awkward, Mr. Schmidt conceded, since the new West German chancellor, Helmut Kohl, was scheduled to meet Mr. Reagan in Washington on Monday, the same day as Mr. Brezhnev's funeral.

"But opportunities are few and symbols are important in politics," Mr. Schmidt said. "You can't make a policy with the Russians by reading the press and diplomatic cables. They al-

ways leave out the human thing, and it would be wrong to forget that human pride and sensitivity are important at the top in Moscow, as elsewhere."

Mr. Andropov has not made things easier for Mr. Reagan by taking such a hard foreign policy line in his first official statement, glorifying the Soviet armed forces as a main bulwark of peace. But he obviously has his problems.

He has inherited a potentially disastrous economic situation, which can be relieved only by reduction in military expenditures.

But especially at the beginning of his new authority, no doubt he also needs to appease the military, which can usually be appeased only with more cash and weapons.

How to break out of this economic and military dilemma is a problem for Washington as well as Moscow, but the death of Mr. Brezhnev provides an excuse for talking seriously about breaking the patterns of the past. Even the Chinese seem quick to take the dubious news of Mr. Brezhnev to encourage normalization of relations with Moscow.

One hopeful sign is that Mr. Andropov, while a former KGB chief with a concern for internal security, has shown great interest in Hungary's experiments with a mixed economy. Also, at 68, he is of Mr. Brezhnev's generation, and presumably has his own memories and nightmares of the tragedy of world war.

The New York Times.



\$200-Billion Deficit Faces Reagan

By Tom Wicker

NEW YORK — President Reagan began his latest news conference by listing the important events of the day — the death of Leonid I. Brezhnev, the fifth flight of the space shuttle Columbia, the return of Philip C. Habib to the Middle East. He did not mention a more immediately significant development.

That was the report by the Commerce Department's chief economist, Robert Ortner, that economic recovery cannot be expected before the first quarter of 1983, and that even in the first half of that year business activity will be moderate at best.

Mr. Ortner also said that the previ-

ously reported third-quarter gain in gross national product — a modest 0.8 percent — probably would be revised to show a small decline.

Aside from again confounding the relentlessly optimistic predictions of Mr. Reagan and his Treasury secretary, Donald T. Regan, this lugubrious report means that the president's budget problem is moving from disastrous to catastrophic. A real third-quarter upturn, continuing into the last quarter of 1982, with the economy booming ahead in 1983, might have brought a corresponding upsurge in tax revenues to apply to the impending deficit.

As things stand, the outlook for a deficit of about \$170 billion to \$180 billion — a horrendous figure, beyond anything any "big-spending" Democratic president ever amassed — is fading; the chances are that the deficit will rise past \$200 billion. Politically, that would torch Mr. Reagan's pretense that the other guys are the big spenders. Economically, the pressure of such a deficit on the credit market and the resulting upward push on interest rates would strangle recovery in its cradle.

On both counts, something will have to be done; and Mr. Reagan is sensitive enough politically to know it, although he has proved himself a stubborn fighter for what he wants. Almost certainly, for one thing, he

will have to go along with some reduction in the vast increases in military spending that he and his defense secretary, Caspar W. Weinberger, have projected.

These increases of about 7 percent annually, after inflation, are clearly a major cause of the predicted deficits — which are generally expected to be even larger after fiscal year 1983 if nothing is done. Many critics in both parties consider the military increases excessive anyway, by comparison to demonstrated defense needs and to the Pentagon's capacity to spend such amounts efficiently.

Numerous studies show, moreover, that military spending does not create as many jobs as, say, housing or public works programs. By increasing demand for skilled workers and scarce materials, military spending also tends to be inflationary. And the elections pointed toward a desire to see military cuts rather than further reductions in social programs.

Mr. Reagan seemed to open the door slightly to Pentagon budget cuts when he said at his news conference that "We're looking, if there are savings that can be made without delaying or setting back" the planned military buildup.

In fact, he has little budgetary choice. Not only is the third stage of his income tax cut, due July 1, the centerpiece of his program, to which he seems more fully committed than any other part of it; but in a year when the economy will be struggling to recover and in need of stimulation, it is unlikely that Congress will want to repeal or delay tax reduction.

Another major target for savings will be the entitlement programs, including Social Security. But drastic immediate cuts in such programs will be difficult politically; any savings accomplished in them will probably be gradual and long-range.

As for other nonmilitary spending, cutting it all would not be enough to bring the budget into balance — and that would mean putting an end to the National Aeronautics and Space Administration, the FBI, the Weather Bureau, flood control, disaster loans, farm programs, highway programs, environmental protection, and on and on through most of the government's accepted functions.

And here you noticed that Mr. Reagan and his aides long ago stopped talking about balancing the budget by eliminating "fraud, waste and abuse"? If there is enough of any of that to make a difference, it is in the Pentagon budget — another reason it is likely to be cut.

The Dramatic Failures Of a Party Apparatchik

By Harrison E. Salisbury

NEW YORK — Leonid I. Brezhnev died as a leader who had failed in his two great goals — peace and security for the Soviet Union and a maturing prosperity for his people.

He came into office as a protégé of the powerful old Stalinist ideologist Mikhail A. Suslov, who died last January. Mr. Brezhnev's failure can be attributed in large measure to the qualities that won him the backing of his fellow Politburo members.

President Brezhnev was a firm centrist, a middle-of-the-road bureaucrat — no flair, no charisma, not an ounce of originality, the epitome of the conventional party apparatchik.

The bureaucrats who put in Mr. Brezhnev could not tolerate Nikita S. Khrushchev's expedient, his cavalier attitude toward Marxist rules, his determination to try anything once — whether growing Iowa corn or planting missiles in Cuba.

The men who put Mr. Brezhnev into office wanted no nonsense. They got none, and in this lay the seed of the Brezhnev failures.

In foreign policy, Leonid Brezhnev proved unable or unwilling to reverse the ever-heightening Chinese-Soviet hostility. In relations with United States, he grasped the opportunities offered by Richard M. Nixon and Henry A. Kissinger to move toward détente and a cap on the arms race. But Mr. Brezhnev lacked the zeal or know-how to keep the ball in play once Jimmy Carter and then Ronald Reagan came into office.

Russians who knew Mr. Brezhnev, including members of his intimate entourage, attested to his desire to go down in history as a man of peace. He had hoped to have détente as a monument to his regime. But he did not possess the dynamism to move these causes forward once the world situation began to sour.

He backed generous arms programs. He poured Soviet assets into defense but his efforts proved counterproductive because they stimu-

lated the United States to match and exceed the Soviet effort.

It was in military and foreign affairs that President Brezhnev's failures proved most dramatic. He permitted the Soviet military to dabble extensively in adventurist undertakings in Africa — Angola and Ethiopia — which aroused United States antagonism without adding materially to Soviet strategic power.

He committed Soviet support to Vietnam and to Vietnam-controlled Cambodia in the dubious pursuit of a southern base against China. He expanded the Soviet Navy without evaluating what genuine strategic weight this would give to his country; outside of "showing the flag" and, possibly, providing a dubious naval blockade of the China coast if needed.

None of this, perhaps, would have counted large in the final assessment of Mr. Brezhnev had it not been for Afghanistan and Poland. By his choice of military intervention in Afghanistan and a military dictatorship in Poland, he cast away any last hopes for overall détente, improvement of relations with the United States, the ending of the arms race and achieving peace and security.

In domestic affairs, his failures have been equally pervasive — notably the slow loss of vitality of Soviet industry and the deepening morass of Soviet agriculture.

To the end of his days, President Brezhnev's fellow citizens for the most part perceived him as a man who would not rock the boat. Perhaps not, but in his 18 years in office, the holes in the rusting hull grew bigger, the engines faltered more and more and the outside waves dashed higher and higher.

The writer, a former Moscow correspondent and retired associate editor of The New York Times, is author of "Black Night, White Snow," a revisionist examination of the Russian revolutions of 1905 and 1917.

Felix Frankfurter and a Vision of the Law

By Edwin M. Yoder Jr.

WASHINGTON — Of Vienna's mixed legacy to the United States — Freud, Strauss, waltzes, logical positivism, all mingled with a little crackpottery — at least one gift stands out: Felix Frankfurter was born there Nov. 15, 1882, exactly a century ago.

When his friend and patron Franklin D. Roosevelt was enjoying a gilded boyhood in Hyde Park, New York, Mr. Frankfurter was a lad in the land of the Hapsburgs. His education in English began only at age 12 when his parents brought him to New York.

"Marginality" — coming from the fringes — often explains the deepest and richest political attachments. America and its heritage of Anglo-American law were such attachments for Felix Frankfurter. They were elective affinities and the stronger for being so.

Yet something Viennese lingered in Mr. Frankfurter's bubbling personality, his talent for making friends and brightening gray days. He had, recalls Isaiah Berlin, "an unrivaled power of liberation of human beings imprisoned beneath any icy crust of custom or gloom or social terror."

Mr. Frankfurter was already a distinguished man — scholar, teacher, public servant — before Roosevelt appointed him to the Supreme Court in 1939.

He had already been heard from. As a young law professor he had been scandalized by the Sacco-Vanzetti case. A noxious odor of class prejudice, of judicial lynching,

hung over the conviction of two Italian immigrant anarchists in a notorious robbery-murder case of the 1920s. Mr. Frankfurter fought bravely but was out for retrial. Whether or not he was right in the question of guilt, his writings on the case brought to public view his lofty vision of the law as a neutral force, above all taint of class, party or personal predilection.

As a justice, his name is forever associated with "judicial restraint," the doctrine of his mentors Oliver Wendell Holmes and Louis D. Brandeis. For Mr. Frankfurter, it was not only a matter of "judicial restraint" but of "judicial vision." It was sometimes he injudiciously neutral for the weak.

His dogged consistency on the point often distressed his friends — never more so, perhaps, than in the second "flag-salute" case of 1943, when he persisted in supporting the view that a state could require patriotic gestures of the children of religious dissenters.

His explanation remains poignant, after 40 years: "One who belongs to the most vilified and persecuted minority in history is not likely to be insensible to the freedoms guaranteed by our Constitution. . . . But as judges we are neither Jew nor Gentile, neither Catholic nor agnostic."

Mr. Frankfurter understood that personal disinterestedness is especially critical in a system such as

the American system, where judges have unique power to check democratic judgments.

His judicial bent is best epitomized in a story. Friends had taken him, late in life, to see Robert Bolt's great play about Sir Thomas More, "A Man for All Seasons." In one scene, Sir Thomas's son-in-law, Roper, indignantly declares that he would cut down every law in England to get at the Devil.

"Oh," Sir Thomas responds. "And when the law was done, and the Devil turned round on you — where would you hide, Roper, the laws all being flat? This country's planted thick with laws — man's laws, not God's — and if you cut them down — then if you really think you could stand up to the winds that would blow then? Yes, I'd give the Devil the benefit of law, for my own sake's sake."

As the lines were spoken, Mr. Frankfurter, edging forward in his seat, enthusiastically whispered: "That's it! That's it! What was this 'it'?" That Mr. Frankfurter heard in Sir Thomas's lines and cherished in a great American life that began a century ago this week?

Just this: The law will protect the good man and the righteous cause only if it also extends an even hand to the evil and iniquitous as well. That lesson, hard to grasp and still harder for most of us to embrace, is the heart of the rule of law. It had no better friend in a long and fragile history than Felix Frankfurter.

The Washington Post.

NOV. 15: FROM OUR PAGES 75 AND 50 YEARS AGO

1907: Russia's Duma Opens

PARIS — Today's editorial in the Herald reads: "The third Duma (legislative assembly) of the Russian Empire has been formally opened. It was, of course, difficult for a huge and inchoate empire like Russia to carry out its political education in 12 months or even two years. But one characteristic it had in common with other parliamentary countries — the people who shouted loudest had most chance of being heard. The result was that the advanced parties were in the majority. These parties showed no aptitude for constructive statesmanship. They wanted to plunge into a perfect sea of reforms."

1932: The Allied War Debt

NEW YORK — President-elect Franklin D. Roosevelt has accepted, with qualifications, the Hoover's invitation to confer on the Allied war-debt question. Britain, France and others have requested a suspension of their Dec. 15 debt payments and consideration of a revision. Mr. Roosevelt apparently rejected the presidential suggestion that he bring Democratic leaders with him, suggesting the meeting be informal. Both he and the president are opposed to outright cancellation, but have in mind some form of compensation to the United States as a price that might make such action worthwhile.

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LETTERS TO THE EDITOR

Evidence on Formula

Regarding "The Fight Over Formula" (H.T. Nov. 9): As a biologist and science writer, I like to see journalists dealing with science and technology get their facts right. Sadly, the editor of The Washington Post has not.

What facts support the assertion that infant mortality has "more to do with initial health status" than with feeding? A reputable study in Guatemala found post-neonatal death rates twice as high on the bottle as on the breast. In a study in upstate New York — not the Congo — disease incidence doubled in babies taken off the breast at four months, versus those left on. Rich or poor, antibiotics are antibiotics.

Moreover, there is "hard evidence" of a major decline in breast-feeding among poor women in underdeveloped countries," contrary to the editor's assertion. In Chile, where 95 percent of one-year-olds used to be breast-fed, 20 percent are now breast-fed at two months. In Brazil, this is 40 percent. In Singapore less than 10 percent.

I, too, have read formula industry reminders that sometimes breast-feeding and infant mortality have declined together. The World Health Organization has commented that where increased formula use goes with increased living standard, this is hardly surprising — the extra gastroenteritis cases are merely treated. But where it does not, as with work-

ing women among the newly urban poor, mortality goes up as breast-feeding goes down.

None of these tired arguments evoke more than eye-rolling anymore among the medically literate. Yet they appear again and again. Certainly, as the editorial said, "Common sense suggests that the expense of formula alone would prevent its use among the very poor." That is precisely why creative promotion was necessary to create that market.

DEBORA MacKENZIE, Basel, Switzerland.

Halley's Real Comet

Regarding "Halley's Comet: The Long Hello Begins" (H.T. Nov. 3):

The photograph you published gives a very false impression of Halley's comet. It does not streak across the heavens. Its apparent velocity is very much less than that of the moon, for example. In the picture, the stars are elongated and the comet blurred because of the earth's movement during the long time-exposure required by the 1910 camera.

N. SANDERS, Ipswich, England.

No Falklands Fever

Regarding "Falklands Fever Still" (H.T. Nov. 9): The Washington Post editorial writer has entirely missed the point.

Mrs. Thatcher is not still in the

grip of Falklands fever. She recognizes that whatever views may have been held before the Argentine invasion, the Argentines have demonstrated, by their invasion and subsequent actions, their total unsuitability to govern anything.

DAVID SALTER, Surrey, England.

Letters intended for publication should be addressed to the editor and contain the writer's signature, name and address. Brief letters receive priority, and letters may be edited. We cannot acknowledge all letters, but we value the views of the readers who submit them.

هكذا من العمل

BANKING AND FINANCE IN ASIA

Japanese Cut Loans As World Debt Rises

By Robert Y. Horiguchi

TOKYO — As more countries fall behind in their international debt payments and seek rescheduling of their obligations, Japan's banks are drawing down on their hitherto lucrative overseas operations under the increasingly vigilant eye of the Ministry of Finance.

The country's 12 major banks, known as city banks, are estimated to have a \$153-billion outstanding balance in short-, medium- and long-term loans in yen and other currencies to the public and private sectors of various countries, some of which have lately fallen into severe financial straits. This figure, reported by the economic magazine *Keizai Kai*, does not include overseas lending made by some of the 63 regional banks and other financial institutions.

Partly as a result of this active lending, about 30 percent of the total assets of all Japanese banks are in foreign currency resources, a threefold increase in five years. In recent years, Japanese banks have vigorously taken part in the international syndicated loan market. Today 20 percent to 25 percent of international lending is believed to be Japanese in spite of strict Ministry of Finance rules governing such operations. The ministry now wants to decrease this share to 15 percent to 20 percent.

In its recent six-month guideline for banks, the ministry set a \$9-billion limit for total non-yen international financing, the same amount as for the preceding semester. In effect, however, this represents a decrease if inflation is taken into account. The ministry also said it would not authorize a rollover of any unused portion of the previous six-month quota.

Parallel to this tightening of international lending limits, the ministry is promoting the creation of an information pool on the creditworthiness of potential borrowers. The scheme calls for a centralized facility that would help determine the "country risk" factor, the ability of borrower nations to repay loans, in proposed lending on the basis of data provided by the ministry itself, the Bank of Japan, the Ex-Im Bank, city and regional banks and other private financial institutions.

A major consideration in this risk assessment will be the debt-to-service ratios of the countries. In this respect, countries of the Association of Southeast Asian Nations are in a favorable position. The highest ratio in the region is 24 percent for the Philippines, with Indonesia next at 12 percent. In comparison, the ratio is 60 percent for Mexico, 58 percent for Brazil and 45 percent for Chile.

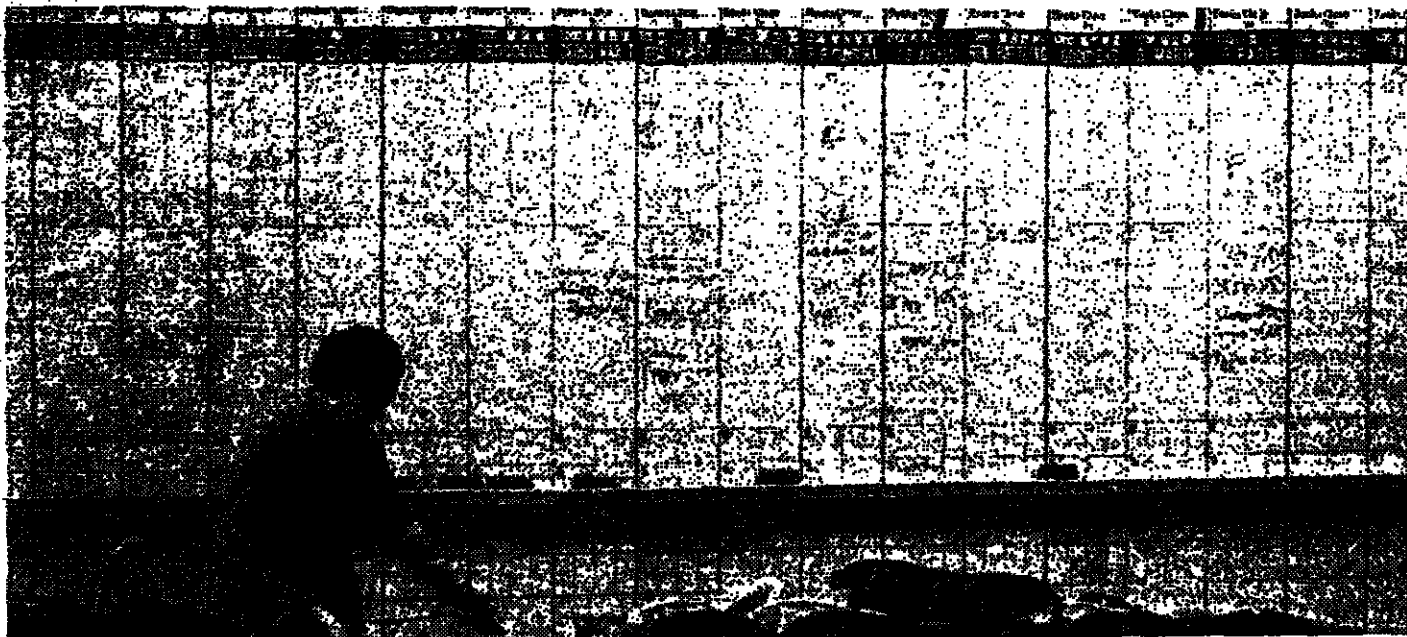
The caution now being shown can be attributed in part to the repercussions in Japan of Mexico's financial difficulties. Out of its total \$80 billion foreign debt, Mexico's banks have \$12.5 billion, of which about 40 percent is in short-term loans, some of which mature at the end of this year. Among the lenders are leading institutions such as the Bank of Tokyo, Japan's prime foreign exchange bank, the Dai-ichi Kangyo Bank, the country's largest bank, and the Fuyo, Mitsubishi, Tokai, Sanwa, Taiyoku-Kobe, and Long-Term Credit banks.

The amounts of the short-term loans made by each bank are reported to be in the \$500 million to \$1 billion range. In extending these credits to Mexico, some banks are said to have made loans amounting to 30 percent to 50 percent of their net worth.

This, could not have been the case had the financing been of the medium- and long-term variety. Under Ministry of Finance rules, medium- and long-term foreign loans to any one country must not exceed 20 percent of the net worth of the bank or institution. Moreover, for syndicated loans, the ministry stipulates that Japanese banks may assume all of the financing only for Japanese borrowing, Japanese export financing, Japanese export-related financing of up to \$100 million or other financings of less than \$20 million.

In addition, the banks may take up to 50 percent of a syndicated financing if a Japanese bank is the sole agent bank and up to 33 percent if there is a Japanese bank as lead manager in the credit. If there is no Japanese lead manager the limit is 10 percent.

Japanese banks began entering the international lending market a decade ago after the liberalization of capital transactions in September 1970. With the exception of the Bank of Tokyo, which in the past years succeeded the Yokohama Specie Bank that was established in 1880 as a chartered institution specializing in foreign exchange, few of the other banks could claim at the time experience



END OF THE DAY — A cleanup worker is alone on the floor of the Hong Kong Stock Market at the close of trading.

Hong Kong: Deep Crisis of Confidence

By David Jones

A FALL of 40 percent in the Hong Kong stock market over the last 10 months is a chilling indicator of the crisis of confidence that has swept through the British crown colony this year.

In part, the collapse in stock prices reflects the international recession; Hong Kong is both an entrepôt for Pacific and Chinese-Western trade and a substantial manufacturing base with worldwide exports. But while other stock markets are booming, as investors speculate on lower interest rates leading to international business recovery, Hong Kong is overshadowed by growing uncertainty over its political future.

This year's big sell-off, led by investors in real estate, which accounts for about 35 percent of the stock market, reflects the fact that 1982 marks the beginning of the countdown to renegotiation of the British lease on the New Territories, which expires in 1997. Fifteen years is the normal length of a mortgage in Hong Kong, and no one is going to lend money too readily on a property that may end up as a state-owned asset of the People's Republic of China before the loan is repaid.

The New Territories, which extend from the Kowloon Peninsula up to the Chinese border, have been the scene of immense new real estate projects, where whole new towns and manufacturing complexes have been constructed in recent years, with backing from Communist and Hong Kong Chinese interests and from Western investors and financial institutions. A slowdown here has always been on the cards, as renegotiation of the lease comes closer.

But the real worry this year has been that the Chinese leadership, most notably Deng Xiaoping, the Communist Party vice chairman, has told visitors that China plans to exercise its sovereignty over Hong Kong, that is over Hong

Kong Island, which houses the financial district, and over Kowloon, the principal manufacturing base. British claims to this crucial territory are being dismissed as based on treaties extracted at gunpoint from the Manchu dynasty in the last century.

The visit in September of Margaret Thatcher, the British prime minister, had the effect of sending investors, already running scared, into near panic. Mrs. Thatcher was able to offer the financial community no comfort at all from talks with the Chinese prime minister, Zhao Ziyang, and with Mr. Deng, which immediately preceded her arrival in the colony. During her two days of public engagements in Hong Kong, share prices fell a further 10 percent; and an address to the colony's legislature from the governor, Sir Edward Youde, a few days later was equally bleak.

The air is alive with rumors of possible compromise solutions. Would the British, for example, allow the Chinese to assert sovereignty, while retaining a "management" role over the colony? To Mrs. Thatcher, at any rate, who sent an armada to the South Atlantic after an Argentine assertion of sovereignty over the Falkland Islands, such a solution must seem unthinkable.

Yet Hong Kong is not the Falklands. Quite apart from its military power, China could bring the colony to its knees by the dual expedient of cutting off its water supply and opening the immigration tap. Under such circumstances, civilized life in the already crowded colony would become impossible.

Of course, the British have cards to play, too, in what looks increasingly like a prolonged war of nerves. Hong Kong is a window from the West into China, and a window that opens both ways. The port of Hong Kong, for instance, is a major re-export center for Chinese goods, in particular clothing, cotton fabrics and foodstuffs, some of which go on to find even-

ual and valued markets in countries with which Beijing would not like to be seen openly doing business. And the flow in imports through Hong Kong from the rest of the world, of such major items as telecommunications equipment and vehicles, is again substantial. Hong Kong is China's principal deepwater port and certainly its most efficient one.

In Hong Kong, too, mainland China finds an outlet for its financial instincts and energies. The Bank of China, and its 12 sister banks in Hong Kong, control something like 40 percent of the banking market. Chinese businessmen resident in the colony keep funds on deposit with the 200 branches of this Beijing-controlled network, use it to transmit remittances to relatives inside mainland China, and turn to it for financing their business ventures.

The Chinese authorities could not have chosen a more unsettled period to introduce a note of political uncertainty. This year the colony's financial community has been getting to grips with the implications of structural changes to the banking system.

Legislation has been introduced that will on the one hand allow banks to compete more effectively for deposits with finance houses, the so-called deposit-taking companies, or DTCs, but on the other could lead to a cutthroat battle on the interest rates they offer to depositors.

For many years banks operating in Hong Kong have had to join and abide by the rules of the Hong Kong Association of Banks. The association, which effectively acts in concert with the government, determines the rate of interest that banks pay on deposits. This cartel arrangement was instituted to help control the money supply and in particular to prevent smaller banks overextending themselves through paying too much for deposits and then getting into trouble.

But deposit-taking companies

have not been bound by these restrictions, and consequently in recent years have attracted substantial deposits from the banking system; in the three years to the end of 1981, the banks' share of deposits fell from 85 percent to 64 percent. Action is now being taken to restrict the activities of the deposit-taking companies. Under new legislation there are two types of DTCs. A "licensed" DTC may not now accept a deposit of less than 500,000 Hong Kong dollars.

In effect the licensed DTC will become a merchant bank, bidding for wholesale funds. Banks, of course, will also be bidding for these funds, and here the biggest change in the colony's banking system has taken place. So as to enable its members to bid for wholesale funds, the association has in effect relaxed the cartel agreement on interest rates on sums of more than 500,000 Hong Kong dollars. Competition at this level is going to spread to the retail level, and could erode what have in the past been very healthy profits.

Stock Market Boom Expected If West Turns Back Recession

By Barun Roy

HONG KONG — It looks like it is going to be party time once again in Asia's stock exchanges, and bargain hunters would do well to start stepping into their dressing rooms.

For many the show will not start for at least another six to eight months. By then, hopefully, Western economies, particularly that of the United States, will begin to revive convincingly from recession.

Only Hong Kong seems to be in a sober mood. That market came in for a rude jolt in recent weeks as nervousness about its political future pulled down the Hang Seng index and eroded the Hong Kong dollar, and as two major property companies, Carrian Holdings and EDA Investments, reported having trouble in coping with their huge market debts. Things have slightly improved after some indirect but positive hints from Beijing, but it will be difficult for Hong Kong to return to the heady days of the past couple of years.

For the time being, Tokyo seems to be taking up most of the attention of international fund managers. "It's the new El Dorado," the securities chief of a major European merchant bank in Hong Kong said. "Everybody is flocking to that market and has begun to put the best available people there."

Most observers agree that the Tokyo market has bottomed out. After hitting its 1982 low on Oct. 1, it came back to life after the Wall Street rally and in one single day, Oct. 8, the Nikkei Dow Jones index gained 246.64 points to close at 7361.57. Lower U.S. interest rates should support a continued rise in Japanese share prices, and the Nikkei Dow Jones average could very well reach 7600 by the end of the year.

There is brisk demand for Japanese shares, and as worldwide investment funds move into shares again in anticipation of an international economic recovery, the prospects in Tokyo should prove to be particularly attractive. The bulk of the recent trading on the Tokyo stock exchange was generated by foreign investors, who are now net buyers of Japanese stocks. As long as the foreigners do not leave, there will be a measure of basic security in the market.

This in turn is expected to strengthen the yen, further encouraging fund managers in other countries to increase the share of Japanese stocks in their portfolios. A lot of new money is believed to remain poised on the sidelines, ready to jump in when the foreigners return in force. This should particularly benefit such blue chip speculators as Casio, NCR, Iwatsu Electric, Sharp, Hitachi, Aritsu and Matsushita, which have, in any case, remained active. Analysts say the combined recurring profits of Japanese corporations will continue their upward climb seen in the last half of 1982, and will probably post a 10.5 percent growth in the semester to March 1983. This will be led by processing assembly in elec-

tronics. By all accounts, the business in electronics will remain favorable.

In Singapore, technical indicators are once again giving buy signals and charts are showing the promise of a substantially higher upside potential. After drastic midyear debacles, the market finally worked out a technical correction in the last week of October, and on Nov. 2, the 30-counter Straits Times industrial index stood at 719.08. This was a remarkable rally from the August low of 592.09, which followed Prime Minister Lee Kuan Yew's National Day remark that Singapore's economic growth in 1982 would be lower than expected. It is true that corporate results have not been good in Singapore this year, and many companies are bracing for reduced growth in 1983. Hard-hit are companies with the highest exposure to the export markets, such as Malaysian tin and plantation companies listed in Singapore. However, Singapore's economy is basically strong and adequately diversified, and it offers a number of worthwhile recession-proof stocks, such as construction, transportation, food and beverage, finance and consumer goods industries.

Kuala Lumpur still suffers from the lack of fundamentals to back a significant rally. Throughout most of the year, bear pressures remained unrelenting, especially for property, tin and industrial stocks and finance came under renewed pressure in September. However, once the international business climate improves, corporate performance should pick up. The Malaysian economy remains basically vibrant, and most companies will have enough liquidity to undertake expansion.

In Seoul, the composite index tumbled to 157.7 on Sept. 22 from the year's peak of 187.6 on March 6, and yet bargain hunters were not tempted to come back with buying support. But a rally should not be far away with the government reducing corporate income tax and interest rates. This measure may enable major companies to save more than 400 billion won in 1982 alone, which will be available for capital investment.

The market in Manila, dominated by the mining sector, and hence at the mercy of external business conditions, is at last beginning to show some feeble signs of recovery after three years of steep decline. All three indices of the Manila stock exchange, commercial, industrial, mining and oil, have rebounded from their lows, with the oil sector showing the biggest jump. The economy, however, remains extremely vulnerable, with an expected \$850 million payments deficit in 1982.

In Bangkok, dominated by cement and banking issues, the market is still relatively undeveloped, although the prospects of strong energy-related industrial growth should finally give it some luster. Interest has also been growing recently about a possible inflow of investment funds from Hong Kong.

Turn to Sophisticated Industry, Rise in Western Investment Seen

By C.C. Willis Jr.

HONG KONG — Over the next 10 to 20 years, the Far East in general — and Southeast Asian countries in particular — will experience continuing high levels of economic growth in relation to other regions of the world. Unlike the past, however, growth will not be predominantly centered in the raw material and resource sector but in more sophisticated, higher value-added products.

Taking advantage of lower unit labor costs, growth in interregional trade and an abundance of raw materials, the economies of this region will begin to attract, with a greater velocity, direct and indirect investment from the industrialized countries. The exception to this pattern, China, is a special case. But China should, nonetheless, experience significant growth as it slowly opens its economy to Western technology and investment.

These countries in Southeast Asia are becoming increasingly aware of the need to maintain conditions to compete for investment. As their economies expand in similar directions, governments are introducing new incentives to attract direct investment in the manufacturing sector and relaxing financial restrictions to attract indirect investment via participation in their capital markets.

Singapore is discovering that additional incentives to attract new foreign investment are becoming increasingly necessary. The government's Economic Development Board has been highly successful in attracting a wide range of new industries to Singapore by offering incentives that range from no tax on company profits for companies with "pioneer status," to tax breaks for developing new or specific products, for five to 10 years, to government loans for certain types of industries and tax incentives for research and development projects.

But it is through participation in its capital markets that Singapore offers the best opportunity to prospective investors. With no restrictions on foreign ownership, except in the case of local banks, where the ceiling is 20 percent, and no capital gains tax per se, the Singapore equities market is securely positioned as the third regional market behind Japan and Hong Kong.

Malaysia, which leads the world in tin, rubber and palm oil production, is suffering acutely as raw material prices remain weak. To help stimulate growth and investment, the government, in its recent budget proposals, added to existing investment incentives by repealing export duties on various commodities. Malaysia already has incentives designed to attract

companies to invest in Malaysia, including pioneer status that provides tax holidays for new ventures, export allowances, accelerated depreciation, reinvestment allowances and export refinancing. Development incentives in special areas designated by the government are also eligible for benefits. And though these incentives have been predominantly connected to raw material development, over the next decade the manufacturing sector is expected to sustain the largest rate of growth and, according to government plans, should account for 25 percent of the country's output by 1990.

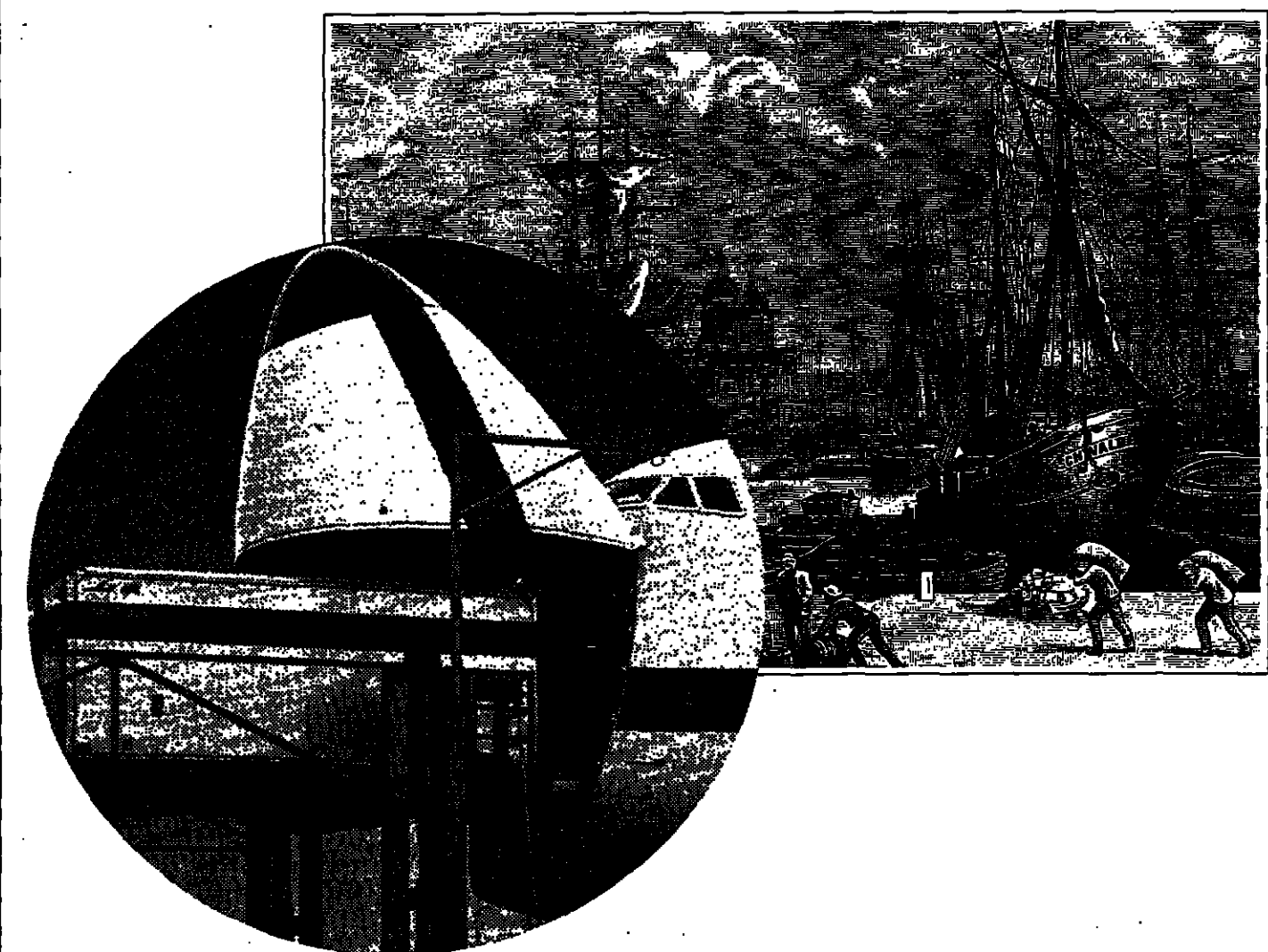
It is worth noting that potential investors initially expressed concern over the government's policy of *bumiputeraization*, which seeks to ensure equity participation in industry for indigenous Malays, or *bumiputras*. However, this program has been well received by foreign and domestic investors and should not retard foreign investment into Malaysia.

In the Philippines, foreign investment increased from 1968 to 1980 at an annual average rate of 45 percent, and 1981's figures are estimated at 2 billion pesos. The government's Board of Investments offers incentives for investment in the manufacturing sector that include tax deductions for organizational and preoperating expenses over 10 years, reduction of import duties on necessary capital equipment imports, tax credits on interest payments on foreign loans, and a 100-percent deduction of expenses on infrastructure development.

Projects such as the Philippines Associated Smelting and Refinery project and the Phosphate Fertilizer plant have taken advantage of these incentives, which reflect the government's growing awareness of the need to maintain an investment environment competitive with neighboring states.

This awareness is spreading to the stock market where foreign investment increased by 14 percent in 1981 to \$96.5 million as restrictions on foreign participation continued to be relaxed. However, difficulties remain. Foreigners investing up to 30 percent of a company's capital must report this to the Board of Investments. Beyond 30 percent, application must be made with the appropriate authorities. These restrictions, coupled with a 30-percent tax on dividends to foreigners, 25 percent capital gains tax on stock sales and central bank monitoring and control of capital flows place the Philippines at a disadvantage when compared to alternative markets in the region.

The author is manager of Jardine Fleming & Co., Hong Kong.



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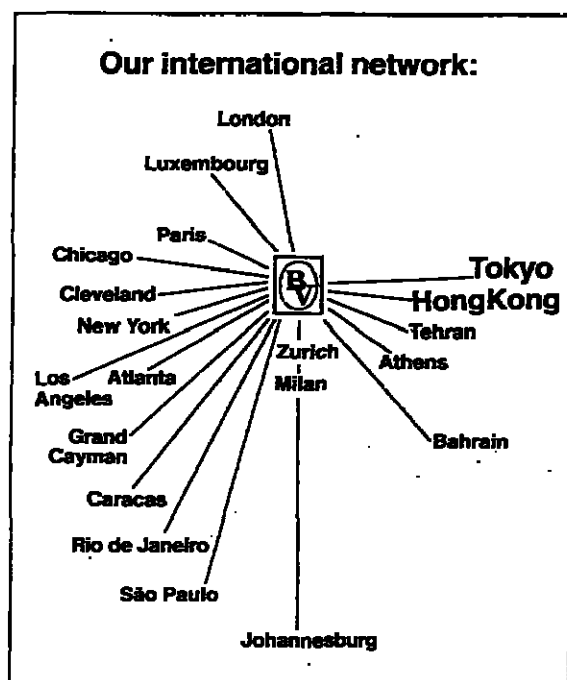
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BANKING AND FINANCE IN ASIA

Thailand Seeks More Foreign Investment

By Della Denman

BANGKOK — Barely a month after Hong Kong got the jitters over British Prime Minister Margaret Thatcher's inconclusive visit to Beijing, a group of leading Thai bankers flew into the British crown colony to investigate the prospects of luring Hong Kong businessmen to Bangkok.

On their return to the Thai capital an impressive task force was appointed to work out incentives to attract overseas Chinese investors. Advised by the presidents of the Bangkok Bank and the Metropolitan Bank, the team comprises the president of the board of trade, the governor of the Bank of Thailand, and top officials from the Foreign Ministry, the ministries of Industry, Commerce and Agriculture, the economic development board, the board of investment, and the Thai Bankers' Association. Nobody, it appears, was left out. As one Thai banker put it, "They mean business."

Banking in Thailand expanded rapidly in the 1960s and maintained a steady 20 percent a year growth in the 1970s. But the country's growth rate has slowed from 7 percent last year to 5 percent this year because of the worldwide recession. An injection of Hong Kong capital would provide employment and boost the economy.

Some critics believe that the mobilization of domestic resources and a streamlining of the top-heavy bureaucracy is more important than a reliance on external borrowing and foreign investment. But even they agree that while

other Asian countries have a more developed infrastructure, lower tax rates and fewer restrictions, Thailand has cheap labor and a wider range of natural resources.

Thailand has played host to refugee Chinese for centuries. Many Thais are half-Chinese. The culture, religion, and cuisine are similar. Chinese in Thailand become totally assimilated and in most cases adopt Thai citizenship and Thai names.

Ironically enough, while the bankers are trying to woo Hong Kong investors, the government has been trying to break the oligarchical control that long-resident Chinese-Thais have over the banking system in Thailand. Many of the 16 local banks are run by wealthy influential ethnic Chinese families who use their banking operations to finance their other economic interests and activities.

The government attempted to distribute the country's wealth more evenly in 1979 by bringing in a banking law whereby banks had to disperse 20 percent of their shares to 100 shareholders in a first phase, 40 percent of their shares to 200 shareholders in a second phase, and 50 percent of their shares to 250 shareholders in a final phase. The family banks met the first phase by selling shares within the family circle or to close associates. So far only one or two small banks have complied with the second phase. The public lacks confidence in equities and the stock market is still depressed after a spectacular collapse in 1979.

Somborn Nandabuwat, president of the Thai Bankers' Association and the managing

director of the Laem Thong Bank, said: "The law was enacted at a time when the stock market was booming, the economy was healthy, and there was plenty of liquidity. Today the public does not have the same purchasing power and I don't think the stock market will improve much in the next two years."

The government's deadline for the total divestiture requirements has been moved from 1983 to 1985, but continuing high interest rates may still make it difficult for banks to sell their shares. The 14 foreign banks, legally defined as branches of overseas companies, are not affected by the divestiture law, but their subsidiaries are. The law states that once the divestiture stages are complete, the foreign holding in any finance or security company must be reduced to 40 percent by 1986.

Foreign banks have been recommending their interests in Thailand and weighing up the long-term growth prospects against such stringent regulations.

Chase Manhattan Overseas Banking Corporation and Continental Illinois National Bank and Trust Company have sold their Bangkok subsidiaries on the grounds that they could not maintain the same managerial control and style of business under a joint venture setup.

Bank of America's subsidiary, BA Finance and Securities, and Citibank's subsidiary, Citicorp Finance and Securities, are both complying with the law. But other finance companies backed by foreign banks have been unable to meet even the first stage of divestiture and may be taken over by local interests.

Malaysia Urges Banks to Nurture Growth

KUALA LUMPUR — Prime Minister Mahathir bin

Mohamad's government has made it clear to banks for some time that he wants them to take a specific and aggressive role in boosting the country's economy, which is troubled by falling commodity prices and an underdeveloped rural sector.

But this year the government has put pressure on the banks to put that policy into action. Two weeks before the delivery of an austere 1983 budget, Mr. Mahathir told the banks that making money was the least of their responsibilities.

"Banks should become more paternalistic... and not behave like moneylenders," he said, adding that villagers in Malaysia's kampongs still think of banks in these terms. "What we want to know is whether these people can be made to understand that money can be used to make money. Money for them is still a convenience that they use because they can't carry their goods."

While there is nothing new about Mr. Mahathir's view that the banks have neglected their development role in building the economy along the lines of the so-called new economic policy, favoring the economic role of the native Malays, other sectors have up until now held the attention of the government. The much-publicized absorption of powerful post-colonial British companies like Guthrie and Harrisons & Crosfield by the government and its investment arm, Permodalan Nasional Berhad, have been illustrations of the government's determination to acquire control over the plantations sector and commodities, still the foundation of the country's natural wealth.

Production of tin, palm oil, pepper, and rubber is now concentrated in the hands of *bumiputras* — the traditional Sanskrit term for Malaysians of Malay as opposed to Chinese or Indian extraction, and means "sons of the soil." If last year could be termed the "year of plantation restructuring," this year it is the turn of the services sector covering insurance, advertising and banking.

The banks were well prepared for this. Last year the Bank of England sent delegations to the Malaysian central bank, Bank Negara, as well as to other Malaysian bankers, informally to gauge the urgency and attitude of the government toward British banking operations, which are widely established in Malaysia. Any residual resistance in the banking sector was met head on by the comments of the deputy finance minister, Datuk Najib Tun Razak, visiting London last December when he reminded his hosts that banks should never have assumed they

were exempt from the prime minister's blueprint to reduce the dominant role of some foreign banks.

Precedents for restructuring stem from the Malaysian rule preventing overseas state-owned banks from operating in Malaysia. Three nationalized Indian banks were re-formed in 1973 into the United Arab Bank, a takeover by the Pakistani government of a parent company resulted in the formation of Perwira Habib in 1975 and, most recently, the nationalization in France of the Banque de l'Indochine and de Suez made the restructuring of its local operations inevitable. On Oct. 1, with almost no warning, the sign outside one of its two branches heralded its transformation into the Malaysian French Bank.

The new owner is a *bumiputra* businessman and politician, Daim Zaimuddin, also chairman of the board of the Malaysian merchant bank, Rakyat First. The new bank falls in line with new economic policy guidelines that foreign investment be limited to 30 percent equity by 1990, and *bumiputras* equity be at least 30 percent.

What piqued the curiosity of financial gossips in Kuala Lumpur in October was Mr. Mahathir's allowing someone seen as a political crony of the government to assume control of a bank like the French institution when at the same time foreign merchant bankers are given to understand that potential "bumi" investment should preferably come from institutions and not individuals. The news in July that Mr. Daim Zaimuddin would assume control was controversial enough to have given rise to a ru-

mor that Mr. Mahathir himself was responsible for the delayed delivery of a leading regional newspaper breaking the news.

The issue of where the *bumiputras* investment called for by the new economic policy will come from is an urgent and sensitive one. A foreign merchant banker estimated that there are only about 15 to 20 *bumiputras* institutions substantial enough to participate in the restructuring of banks and other significant foreign holdings.

This problem seems especially acute as the two largest retail banking operations under foreign control, the Hongkong and Shanghai Bank's 36 branches and Chartered Bank's 35 branches, are due for voluntary restructuring by mid-1983. Details on how this will come about have been scanty, but clearly both banks cannot go "on the market" at the same time. At the outset only a 30 percent local stake is likely to be sought, as both banks would like to retain control over the restructured companies, at least in the early stages.

Malaysian banking sources are anxious to reassure foreign investors that the pressure on these two banks may not be felt by foreign banks with only one or two representative offices or branches.

A Malay banker said, "You must understand, from our point of view, we are confronted with a few foreign banks with a bigger branch network than our own local banks. You can go to the most remote corner of Malaysia and there may be nothing much besides a few plantations and a branch of the Hongkong and Shanghai Bank. This is an incident of history we

could live with, but it is better to change."

The assets of Hongkong and Shanghai Bank and Chartered Bank in Malaysia rank third and fourth behind the country's own leading banks, Bank Bumiputera Malaysia Berhad and Malaysia Banking Berhad.

An even thornier issue will be the restructuring of Singapore banks, which dominate the rest of the foreign banking sector. Speculation centers on the immediate position of the Singapore-based Oversea-Chinese Banking Corporation's 25 branches, accounting for roughly 25 percent of the parent's assets of 5.5 billion Singapore dollars.

Merchant banks are not immune either, and while equity overhaul of the merchant banks over the year has resulted in a less obvious role for government agencies because of the introduction of tougher regulations against financial abuses, indirect control by the authorities has actually increased. Greater discipline in the bank boardroom has been backed up by a newly revised banking act which prohibits any bank directors leading to companies on whose boards they sit simultaneously.

On the other hand, bankers were pleased by a decision earlier this year to allow both commercial and merchant banks to lend and participate in loan syndication in foreign currencies, a move that hardly threatens serious competition to established syndications centers like Hong Kong or Singapore but opens another vista to the Malaysians.

— DINAH LEE

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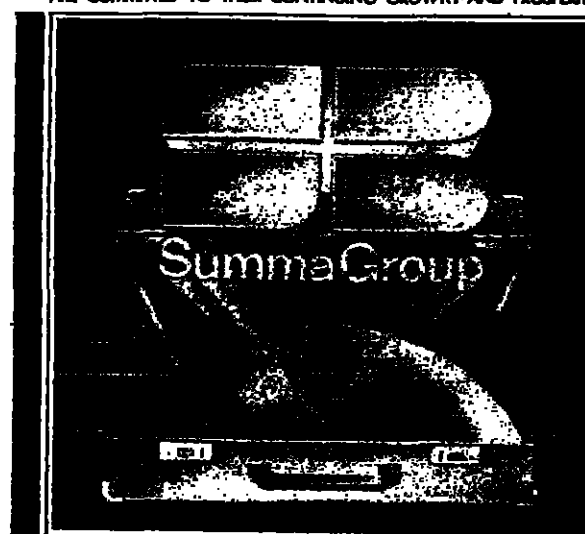
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(Continued on Page 10S)

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BANKING AND FINANCE IN ASIA

China Now Puts Economic Growth Above Class Struggle

By Annelise Hopson

CHINA is now emphasizing economic growth rather than political class struggle. After a severe drop in industrial expansion spending of about 30 percent in 1981, China seems to have a firmer grip on the economic situation.

The present economic policy is based on a planned, centralized economy, supplemented by a market economy. The key word is readjustment, which implies reduction of heavy industry growth in favor of light industry, agriculture and consumer goods. Contrary to this policy, output of heavy industry rose 9.7 percent during the first seven months of 1982 and light industry went up 9.5 percent against the same period last year. The 1982 plan had set growth of heavy industry at 7 percent and light industry at 7 percent.

The rapid growth this year so far is not necessarily good. It may be an ominous sign that heavy industry is increasing again at the expense of light industry and agriculture, thus endangering production of consumer goods and the population's newly found improved standard of living.

Within the current five-year plan, 1981 to 1985, economic growth has been set at a moderate pace with an expected national growth this year of 4 percent, though it is hoped the figure will be 5 percent. It is China's plan to quadruple output by the year 2000, which should be possible if the country, which has one of the world's lowest per-capita incomes, sets the

rate of growth at 7 percent in the late 1980s and at 10 percent in 1990s.

At the recent 12th Congress of the Chinese Communist Party, Hu Yaobang, the party general secretary, said that agriculture productivity was low and that progress in transport and the development of energy resources was slow. These two bottlenecks continue to hamper China's industrial development. Some production sites work at 70 percent capacity because of lack of energy as well as inefficient planning.

China has only 550 miles (890,000 kilometers) of highways, one-seventh of that of the United States, partly because of the use of the rivers as means of transport. Railway Minister Chen Fuxi has been quoted as saying that next year priority will be given to investment in the railway network. This should improve trunk lines to move coal from China's main coalfields in Shanxi province.

Coal provides 70 percent of China's domestic energy supplies. Production rose to 620 million metric tons (680 short tons) in 1981, after a decline from 635 million metric tons in 1979 to 606 million in 1980. It is estimated that China has a third of the world's coal reserves.

Another source of energy is China's untapped oil reserves, which could range from 30 billion to 100 billion barrels. Oil production has dropped in recent years because output from the Daqing field, which used to supply half the total petroleum output, has peaked. Last year total production fell from 771 mil-

lion to 737 million barrels a year. Production will not rise until the offshore fields are started.

China has the world's largest hydropower potential. The 90,000 small hydropower plants throughout the country account for 30 percent of the total generating capacity but represent only about 5 percent of the country's theoretical hydropower potential.

Rural population is 80 percent of China's total, but only about 11 percent of the soil is suitable for cultivation. Agricultural output is expected to rise by 4 percent this year against 5.7 percent in 1981. Grain output is calculated to increase by 8.5 percent from last year. Even so, it is expected that China will import up to 14 million tons of grain this year.

The gradual shift toward more flexibility within agricultural policies started in 1977. Reforms have re-established families and work teams as agricultural production units instead of the commune or brigade, thus giving individual farmers a material incentive to produce more.

As a result, the social pattern has changed in that peasants want to have more children to help earn more money. Young men want to stay in the country to improve their financial situation. This is one of the reasons why they no longer seek to join the People's Liberation Army, whose image has also declined in recent years.

The official rate of increase in population is 1.8 percent nationwide but about 1.2 percent in the cities. The leadership is campaigning for one child per fam-

ily. It is estimated that one-fifth of the urban population is unemployed.

In 1979-1980, the government realized that the ambitious modernization program, which includes industry, agriculture, technology, science and the armed forces, was being carried out too quickly and draining the economy. An economic retrenchment program was introduced, resulting in cancellation of millions of dollars worth of foreign contracts.

The need for China to obtain foreign loans is closely linked to the speed of its modernization program. The Chinese estimated that it would cost about \$600 billion until the year 1985, but the figure has been reduced to about \$240 billion. China's foreign debt was about \$4.7 billion at the end of 1981, against \$3.5 billion the year before.

In stepping up industrial production, China is hoping to earn more foreign exchange to finance the modernization program. During the first six months of this year exports rose 8.7 percent to \$10.86 billion, whereas imports declined by 21.8 percent to \$9.77 billion, thus scoring a trade surplus, against a deficit of \$2.51 billion a year ago.

China's two major trade partners are Japan and Hong Kong, with the United States coming third. In 1981 Japan imported goods worth \$5.29 billion, against \$4.32 billion in 1980. The value of Japan's exports to China was \$5.10 billion in 1981, against \$5.08 billion the year before. Hong Kong imported goods worth \$4.92 billion in 1981, against \$4.39 billion the year before. On the export side, the figures were \$1.83 billion and \$1.25 billion respectively.

Singapore Approaches World Banking Role

By Dinah Lee

SINGAPORE — While few doubts have been cast on the inevitability of Singapore's growth into the leading financial center of Southeast Asia, problems associated with the transition from a regional to an international banking center have seemed more acute lately.

The specific thorn in the paw of the Monetary Authority of Singapore, the country's quasi-central bank, is the continuing circumvention by overseas banks of its reserve requirements. Underlying this sore point is the disharmony between the MAS, which espouses a strong Singapore dollar and tight monetary control, and the ever-arriving foreign financiers who are welcomed by the government but restricted in their expansion. The roots of this contradiction go back to the 1970s when the government devised a rigid format of licensing to protect the retail operations of the tradition-laden local banks.

With the rapid growth of the Asian currency unit activity in the region and hopes for Singapore's growth heightened by the political uncertainty in rival Hong Kong, the ropes curbing the overseas banks are beginning to chafe as increased competition only spurs them to broaden their activities.

Two recent incidents highlight the mistrust growing between the central authorities and foreign bankers who, nonetheless, are welcomed for the liquidity and the desirable skills they import. The first was when the Monetary Authority issued a "severe warning" to banks to stop accepting local deposits in Singapore dollars for placement in overseas branches. This practice enabled the banks to evade the 6 percent cash balance on their liabilities-base required deposit with the MAS. Because banks were thus not liable for the reserve requirements, they could afford to pay higher interest rates to depositors who earned up to half a percentage point higher than normal deposit rates.

This alarmed the MAS, which feared loss of monetary control and a possible ad-hoc internationalization of the Singapore dollar. The MAS refused to confirm or to deny it had imposed rumored harsh monetary penalties on selected offenders, but the public knuckle-rapping was followed in late October when the MAS issued its first written instructions to auditing firms — to act as watchdogs over the overseas banking community.

For their part, some foreign bankers were contemptuous. A European commented: "Why punish

us when they didn't write the regulations properly in the first place?"

The second incident also shed light on the inability of MAS to monitor foreign banks thoroughly at a time when the central authorities were publicizing their efforts to create a more laissez-faire environment dependent on self-regulation by the banking community.

In September, the loss of an estimated \$36 million by the foreign exchange manager of the Singapore branch of Dai-ichi Kangyo Bank, Haruo Kanda, exposed the degree to which neither Dai-ichi's head office nor the MAS had kept tabs on day-to-day foreign exchange operations. The MAS had tacitly assumed that a Japanese manager under life employment would never take such risks.

Banking sources say that experience alone was enough to give the Singapore authorities second thoughts about self-regulation.

Nevertheless, such problems do not discourage more foreign banks from tripping over each other to join the 105 foreign institutions already represented in Singapore. In their eagerness to gain a foothold in a sector that showed a 34-percent rise in total assets/liabilities at the end of July, most foreign banks take the easiest entry route — setting up as a representative office or merchant bank. Some banks with little merchant banking experience, and few profits to show for their efforts here, remain in anticipation of upgrading to offshore licenses allowing them to lend up to 30 million Singapore dollars, to call on the parent company's asset backing, and to deal in foreign exchange.

Merrill Lynch, which already operates an Asian currency unit and holds a merchant banking license, is the most recent applicant for offshore banking status.

The fact that the MAS has not issued a restricted license since 1973 — then to the First National Bank of Chicago — and that the Banque Nationale de Paris has been denied an upgrading from restricted to full status, appears to have deterred no one.

As a natural response to what one frustrated banker called the "overprotection of 13 local banks," overseas banks continue to expand their value-added services. For the restricted foreign banks, also numbering 13, this means taking as many interest-bearing savings deposits above 250,000 Singapore dollars as possible and doing trade financing, letters of credit and Asian currency unit management.

Taiwan's Slowed Growth Rate Is Worrying Conservative Leadership

By Melvyn Westlake

WITH the world recession dragging down even the vibrant economies of East Asia, Taiwan had little hope of escaping unscathed. This year has been the toughest that the island's 18 million people have experienced since at least 1975, after the first big jump in international oil prices. Growth is now projected to be nearer 4 percent than the 7.5 percent originally expected by government economists.

Although this looks respectable by the standards of the major industrialized nations of the West, it is a long way short of the average 10 percent a year expansion notched up during the 1970s. And after the increasingly sluggish performance with which the 1980s opened, it is becoming a source of concern to the more sanguine members of Taiwan's deeply conservative government.

Hard-pressed industry has been provided with some financial relief and even the normally restrictive monetary policy has been relaxed a little to help lift the economy out of the doldrums. But for a country where exports account for more than 50 percent of gross national product — about five times the export

share of the U.S. economy — only a revival in world demand can bring a return to prosperity. The weak performance of exports has been the primary cause of the much slower rate of economic growth. Overseas sales during the first half of 1982 were running as much as 4 percent below the previous year, a singular experience for a country that has become accustomed to a 30 percent-a-year export growth.

Some businessmen and academic economists have begun to worry that even an upturn in the international economy will not be enough to get Taiwan back on track. Many believe that profound adjustments are necessary after 30 years of rapid economic progress, which has produced an eleven-fold increase in national income, in real terms, and quintupled real average national income per head to \$2,373 in 1981.

Taiwan is increasingly caught between the protectionist policies of Western countries, aimed at restricting "low cost" imports, and the ever fiercer competition from other developing countries coming along behind it. The competitive position has been further undermined by 20 percent to 30 percent wage increases across much of the economy during each of the last three years. Labor has been a scarce commodity on

the island for some time. According to government figures, unemployment is less than 1.5 percent of the labor force even after the recent period of low growth, although as there is no unemployment insurance, this figure may not be a wholly reliable indicator of the real slack in the labor market. Some of those without jobs in the towns will simply have gone back to their farms.

The bleaker economic environment has, however, helped to get inflation back under control after the sudden and rapid acceleration in 1980 when prices rose almost 20 percent in Taipei and other urban centers. This was particularly alarming for a government that has always given the highest priority to maintaining stability, and which has run a budget surplus every year for almost two decades in order to ensure that objective. By last summer the level of price inflation had been brought back down to about 3 percent or 4 percent.

Ironically, with tax revenues hit badly by low business activity, 1982 could produce the first budget deficit since 1963, according to Y.C. Duan, chief secretary of the quasi-governmental China External Trade

Development Council. Even so, the government budgetary and monetary policies are still viewed by some economists as too restrictive. Prof. Ting-Ko Chen at the School of Business Administration, National Taiwan University, and a critic of government policy, argues for a more rapid reduction in the level of interest rates. For many smaller businesses that raise money on the underground financial markets, interest rates are still prohibitively high, he says. Prof. Ting-Ko Chen also advocates a devaluation of the new Taiwan dollar on the international currency markets, in order to help restore a competitive edge to the republic's exports.

Although few doubt that Taiwan will achieve a more rapid rate of economic growth after a period of possibly painful readjustment, today's difficulties have severely dented hitherto unrestrained optimism. The latest four-year economic plan, beginning this year, which assumes 8 percent annual growth in national income and a total 47-percent rise in the real value of exports, is now viewed as too optimistic by Chieh-Chien Chao, director of overall planning at the Economic Planning and Development Council. Expectations are now being scaled down.

Japanese Banks Reduce Loan Programs as Number of Countries in Default Increases

(Continued from Page 7S)

In international finance and particularly merchant banking.

As domestic demand for funds slipped sharply in 1973 after the first oil crisis, the banks turned energetically to international financial transactions to compensate for this loss in revenue at home. The results were spectacular. For instance, the Dai-ichi Kangyo Bank,

which in 1972 handled only \$9.46 billion in foreign currency, posted \$83.8 billion in such transactions in 1981.

The bank's foreign exchange assets, which stood at \$2.46 billion in 1972, had grown to \$32.6 billion by 1981, amounting to 33 percent of the bank's total assets. By 1981, its international division had contributed 11.8 percent of the bank's annual gross earnings.

Similar growths in earnings from international transactions have been recorded by other banks. The contribution ratio of their international divisions to gross profit in 1981 ranges from 17.9 percent for the Sumitomo Bank to 7.7 percent for the regional Saitama Bank. For the specialized Bank of Tokyo, the ratio was 70.1 percent.

This growth in importance of

the international divisions has been reflected in the changes that have taken place in the top management of a number of city banks. Yasushi Watanabe, who has had eight years' experience in Latin America, has been elected president of the Bank of Tokyo; Kenji Kawakatsu, the new president of the Sanwa Bank, has held a number of posts in the United States; Shinya Hanekura, head of

the Dai-ichi Kangyo bank, was chosen because of his English speaking ability, while Kotaro Higuchi was appointed vice president of the Sumitomo Bank for having raised the profitability of its foreign finance operations.

These profit gains from foreign transactions took place even as the amount of loans by city banks to domestic private business resumed their upward trend in 1979, after a

six-year slump, to return to the 1972 level in 1981.

International finance has thus turned into a bonanza for Japanese banks, but it has also brought home to a number of them the risks it involves.

In addition to Mexico, Japanese lenders have felt the impact, although to a lesser extent, of the financial crises of Argentina, Poland and Romania.



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BANKING AND FINANCE IN ASIA

Dollar Market Assets Top \$100 Billion for First Time

By Adam Parkin

THE ASSETS of the Asian dollar market at the end of August topped \$100 billion for the first time, dispelling fears that the market was encountering serious obstacles to its progress.

As global recession has left casualties among the high growth economies of Southeast Asia, so a major financing medium of the region's development was also thought to have suffered. In the first half of 1982 the hitherto rapidly growing Asian dollar market experienced a noticeable check to its expansion.

But rapid growth of the market appears to have resumed in recent months.

Amid a deteriorating macro-economic environment, the overall rate of growth of the international banking system has slowed in 1982. In the first quarter of the year it was only the business activity of the U.S. International Banking Facilities (IBFs) as well as the Japanese banks that showed any significant advances.

The Asian dollar market, while suffering from the world economic downturn, has not to any great extent been affected by the newly established IBFs, the burden of adjustment falling on the Caribbean offshore centers.

Of greater concern has been the potential competition posed by Hong Kong's abolition, in this year's budget, of the withholding tax on foreign currency deposits. While initial indications were that this legislation was going to have dramatic implications for the Asian dollar market, the political uncertainties about Hong Kong that have recently come to the fore appear to have largely nullified any

gains Hong Kong might have made.

The Asian dollar market arose from the rapidly growing requirement by Southeast Asian and Pacific countries economies for investment funds and deposit facilities in a widely acceptable currency, the U.S. dollar. With the region isolated geographically and in time from the European financial markets, Singapore became the birthplace of an Asian dollar market.

Hong Kong, also by virtue of its location, trade and financial skills, developed as an offshore financial center to become an equal competitor for the region's banking business. Manila, hosting a number of offshore banking units, is a more recent entry to the market.

As in other major offshore financial centers, the banks in the Asian dollar market have enjoyed freedom from statutory liquidity ratios and benefited from reduced taxes on their loans. Nonresidents' deposits are free from withholding taxes on deposits and stamp duties are not imposed on negotiable investment instruments, which are primarily bearer securities.

Since 1971, when the Asian dollar market became a net user of funds from the international banking system, growth has been rapid. Total liabilities of the Asian dollar market more than quadrupled from the end of 1977 to the end of 1981. Wholesale business continues to dominate the market with interbank funds at the end of August 1982 comprising more than 70 percent of the total assets of \$100.3 billion.

The market, in early 1982, experienced the same checks to growth shown in the wider international banking system. In the first six

months of 1982 the growth of total liabilities of the Asian market slowed to 7.7 percent, against growth rates of 25.6 percent and 21.7 percent for the same period in 1981 and 1980 respectively. However, a notable recovery has occurred in recent months with total liabilities jumping by \$7.9 billion in the two months from the end of June, an increase of 8.6 percent.

A number of factors accounted for the hiatus in the market's growth. World recession, mounting less developed countries' debt problems and a move back toward balance of payments equilibrium have reduced the net flow of funds to and from the international banking system. The prospect of falling interest rates diverted investor attention away from bank deposits toward negotiable securities. Loan losses and deteriorating capital ratios have contributed to a contraction of the banks' balance sheets, particularly for the U.S. banks. But a variety of other influences have been combined to threaten the development of the Asian dollar market.

In the first quarter of 1982 the IBFs of the U.S. banks accounted for a large part of total growth in international banking business. This period continued the process of the once-and-for-all rebookings of credits through the newly created IBFs. Other offshore centers, particularly in the Caribbean, suffered as a result. Also the Japanese banks, which display a preference for Asian lending, were the only other sector of the international banking system expanding their activities significantly.

The Japanese current account surplus at the turn of the year helped fuel the business expansion of the Japanese banks. In the first quarter of 1982 alone, the international liabilities of Japanese banks rose by 7.9 percent to \$108.3 billion. But more recently, the authorities' concern at Japanese banks' exposure to debt-laden less developed countries and the substantial capital outflows, which have undermined the yen in recent months, have led to pressure on the Japanese banks to curb their lending activities. As Japanese banks' lending has slackened, so the market in Singapore has recovered its momentum.

A perennial question surrounding the Asian dollar market has been the struggle for supremacy of the two principal Asian banking centers. Until recently an asymmetrical relation has existed between Hong Kong and Singapore, Hong Kong being the lending or syndication center, and Singapore

the principal source of funds for the Asian market. Traditionally tax legislation in Hong Kong has been regarded as responsible for this dichotomy of function. But earlier in 1982, Hong Kong's new budget abolished the withholding tax on foreign currency deposits, thus removing a major disadvantage Hong Kong faced vis-à-vis Singapore.

The impact of this measure on Hong Kong competitiveness has, however, been blunted by the issue of the colony's future sovereignty, particularly since the visit to China by the British prime minister, Margaret Thatcher. Investors now perceive Singapore as a more acceptable political risk. The management of the Hong Kong economy has always been complicated by the volatility of short-term capital flows, and at times of distress in the Hong Kong marketplace, Singapore has been a beneficiary of funds fleeing from Hong Kong. Hong Kong, however, is still likely to retain its predominance as a capital markets center. The greater experience of equity markets and wider fund management expertise relative to Singapore will persist.

The initial indications in the first half of 1982 were encouraging for the British colony. At a time of sluggish growth of the Singapore market, the liabilities of both Hong Kong banks and deposit-taking companies to banks abroad rose by 18.3 percent in the six months to the end of June 1982, while the liabilities of banks in Hong Kong to banks abroad jumped a further 2.7 percent in July. In comparison with a growth rate of 22.5 percent in the first six months of 1981, it would appear that Hong Kong had been much less affected than the Euromarket or the Asian dollar market by recent banking trends.

Adam Parkin is a director of A.E.I.B.C. Asset Management Ltd., a wholly owned subsidiary of American Express International Banking Corp.

Asian Dollar Market - Assets and Liabilities of Asian Currency Units

(In Billions of U.S. Dollars)

Liabilities	Total Liabilities	Nonbank Deposits	Interbank funds Outside Singapore	Assets	Loans to Nonbanks	Interbank Loans Outside Singapore
December 1980	54.4	9.3	29.6	December 1980	12.4	28.5
March 1981	65.1	9.5	36.1	March 1981	14.2	34.2
June 1981	68.3	10.7	37.9	June 81	15.0	36.4
Sept 1981	77.5	12.5	42.2	September 1981	17.0	40.0
December 1981	85.8	13.7	49.0	December 1981	19.5	45.2
March 1982	95.7	14.9	52.4	March 1982	21.3	47.8
June 1982	92.4	—	52.0	June 1982	—	46.1
July 1982	97.1	—	54.7	July 1982	—	48.7
August 1982	100.3	—	—	August 1982	—	—

Source: Monetary Authority of Singapore

World Oil Surplus Slows Indonesia; Philippines Counts on Austerity Plan

By John Calverley

BOTH Indonesia and the Philippines are suffering from falling commodity prices, compounding in Indonesia's case problems caused by the oil glut. While Indonesia can go to the commercial banks for loans and is resisting slowing development spending, the Philippines has already borrowed widely and is relying on an austerity program to pull it through. Both are pushing nontraditional exports and considering financial reforms.

In 1981 Indonesia's oil sales brought in \$15 billion or nearly two-thirds of export earnings, but this year revenues will be less than \$10 billion. The OPEC production quota of 1.3 million barrels a day is well below Indonesia's capacity of 1.6 million, but industry sources suggest that the country is having trouble finding buyers even at that level.

The shortfall in oil revenues is compounded by drastic price reductions for Indonesia's other commodity exports such as plywood, coffee, palm oil, tin and rubber. As a result of the export shortfalls, borrowing from commercial banks has been stepped up and reserves have fallen below \$5 billion, the lowest level for two years, although funds of the five state banks, at least another \$3 billion, are also available.

The Philippines is suffering from low commodity prices. The worldwide slump in the prices of timber, copper, coconut products and sugar, which together account for more than a third of export earnings, has cut commodity revenues substantially. The trade deficit widened to \$2.04 billion for the first nine months, against \$1.63 billion a year earlier. The current account deficit in 1982 is now expected to top \$3 billion, against \$2.3 billion last year. Government projections show an improvement next year to a deficit of \$2.45 billion based on improved exports and a continued fall in the oil bill.

Domestically, economic growth has slowed from 3.8 percent last year to about 2.9 percent in 1982,

well below the Five Year Plan target of 6.5 percent. In the last 18 months, growth has been maintained by a successful push into nontraditional exports, such as electronics and garments, and by government spending. But raising exports is becoming increasingly difficult in the face of world recession, and government spending is now being cut back. Prime Minister Cesar Virata has proposed an austere 65 billion peso budget for 1983, up 9 percent in nominal terms over 1982, which implies a small fall in real terms. For the first time for more than a decade development spending will be less than spending on salaries and other current costs.

The main reason for this austerity is that, unlike Indonesia, the Philippines has already made substantial use of commercial bank funds and is aware that it cannot expect to increase its reliance on this source. Total debt is expected to end the year at approximately \$17 billion, including \$5 billion of short-term debt. Commercial banks have lent 60 percent of this total. The debt service ratio is around 25 percent, equivalent to 19 percent on the government's definition, which is only just below the self-imposed statutory limit of 20 percent. Foreign borrowing in 1982 is limited to \$2.4 billion, with a total of \$1.89 billion raised in the first nine months.

An important factor behind the willingness of commercial banks to lend to the Philippines has been the close involvement of the International Monetary Fund and World Bank. Negotiations are in progress for a \$340-million standby credit and a \$170-million commodity financing facility from the IMF and a structural adjustment loan of \$250 million from the World Bank. With the overall balance of payments deficit in the first nine months of 1982 at a record \$747 million, against \$560 million for the whole of 1981, the importance of these loans is clear.

Domestic companies have had another very difficult year. An official Securities and Exchange

Commission survey of the top 1,000 corporations showed that their combined profits fell 54 percent in 1981 over 1980, despite increased turnover. This year most companies are reporting lower sales, with only a few, such as brewers and distillers, enjoying increases. Low commodity earnings and rising unemployment have fed through directly into retail sales while at the same time the government's policy of cutting tariffs and opening the local market to more imported goods is also bringing pressure.

There are some positive points in the economic outlook, however. Inflation has been dropping, with consumer prices rising at an annual rate of 10.5 percent in the first nine months of this year, down from a peak of 25 percent in the first quarter of 1980.

The country's dependence on imported energy has been reduced to 78 percent, against 95 percent in 1978, while recent oil finds should permit a further decline to 50 percent by the end of the decade. The policy of reducing import barriers is forcing companies to cut costs and the new export-oriented manufacturing sectors are forging ahead, particularly in such areas as semiconductor assembly, garments and furniture.

There have also been moves to reform the country's financial system, with the aim of reducing dependence on foreign capital. Since the early 1970s, encouragement of savings deposits has raised them to more than 25 percent of gross national product. In 1980 Mr. Virata won approval for a restructuring that will reduce the present array of distinctions in function among various financial institutions, thereby increasing competition. The salient feature is the introduction of the Philippine variant of universal banking through the grant of the Expanded Commercial Banking Authority to commercial banks enabling them to move into new areas.

Foreign banks are lobbying for increased access to the domestic markets and being listened to more receptively than before. The Philippines closed entry by foreign banks shortly after independence in 1946 and only four foreign banks were in the market then. Since 1977, 26 banks have been authorized to establish offshore banking units but business is limited to foreign currencies.

John Calverley is an economist with American Express Bank and editor of the AMEX Bank Review.

South Korea's Loan Scandal Highlights Economic Change

(Continued from Page 8S)

ment and Lee, a four-year term for accepting bribes. The affair was a severe blow to the credibility of President Chun's regime, which has made the fight against corruption its hallmark. The president reshuffled his cabinet twice within two weeks, and to help business following the temporary collapse of the kerk market his government announced cuts of 4 percent in bank interest rates and, from the beginning of next year, a drop of

up to 18 percent in corporate taxes. It also simplified the interest-rate structure, so that today 8- and 10-percent levels apply to all deposits and loans respectively, with the exception of 7.6 percent on one-year installment deposits and 18 percent on overdrafts. This compares with a growth limit of 25 percent set by the government earlier this year.

The greater availability and cheaper cost of credit are a departure from the stabilization policy of the last two years and bring with them the likelihood of higher rates of inflation. In September, money supply measured as M2 (total cash plus demand and time and savings deposits at the banks) rose by 5.8 percent, giving an annual increase of one-third. This compares with a growth limit of 25 percent set by the government earlier this year.

Since May the kerk market has recovered. There was never any question of the government's suspending it, the kerk market is too important a source of funds for many small companies, which form the basis of South Korea's export industry. However, steps have been taken to make it more accountable. From next January all deposits and securities transactions must be made in investors' real names. Legislation to that effect is expected to be passed by the National Assembly before the end of the year.

The death-knell for the kerk market will be sounded only when interest rates are liberalized. Kim Joon Sung, the deputy prime minister, said earlier this year that this process will begin in 1983, with the easing of restrictions and then interest rates, in the bond and commercial paper markets. No precise date has been set for its completion; the government will examine the effects of each step before deciding what to do next.

In the meantime it is hoped that the recently privatized commercial banks and the new nonbank financial institutions will prove their worth. Having first raised the idea of divesting itself of ownership of commercial banks in the third five-year plan (1972-76), the government started putting this into practice only last year. It has since sold four commercial banks — Korea First Bank of Seoul and Trust Commercial Bank of Korea and Hanil — and plans to get rid of its 22-percent stake in Choongnam Bank in 1983.

To steer more investment capital toward small and medium-size industries, the Finance Ministry has sought to strengthen the second-tier, nonbank financial institutions. Tentative approval has been given to grant licenses to eight new short-term finance companies and mutual savings and loan associations. However, there is concern that this lifeline for smaller companies could end up under the control of big corporations that will buy into the second-tier market indirectly through subsidiaries and trading partners.

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Size.

The Savings Banks Organization is Germany's largest bank grouping with a combined business volume of over DM 900 billion — a market share of some 40 percent — and more than half of the nation's total savings deposits. Operating within the system are 598 independent Sparkassen and 12 Landesbanken, as well as 13 Öffentliche Bausparkassen (Public Building Societies), which together maintain 18,000 offices and employ a staff of over 200,000.

Scope.

The facilities and services of Germany's Sparkassen permeate the entire economy, from the largest cities to the smallest rural areas. Together with the Landesbanken, which have their own offices, participations, and correspondent links in the world's major financial centers, the Savings Banks Organization offers its clients a broad scope of international service capabilities.

Legal Status.

All members of the German Savings Banks Organization are public-sector financial institutions. The liabilities of the Sparkassen are covered by the cities and municipalities where they operate. In turn, the liabilities of the Landesbanken are covered by their state authorities and by the regional savings banks organizations.

Service.

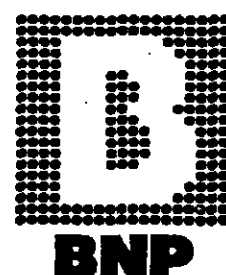
Unlike savings banks in many other countries, Sparkassen in Germany operate as local universal banks, providing both commercial and investment banking services. As an integral part of Germany's traditionally export-oriented economy, many Sparkassen transact considerable foreign business. Their facilities typically include letters of credit, documentary business, payments and collections, and guarantees. For larger scale foreign financing, the Sparkassen often work in tandem with the Landesbanken, which concentrate on wholesale banking.

The 4 basic strengths of Germany's largest banking sector.

The Landesbanken, which act as central banks for the Sparkassen in their region, provide multiple wholesale banking services, ranging from commercial and public-sector lending, project finance, and foreign trade finance to portfolio management, security dealing, and international finance — often managing or participating in syndicated Euroloans and Eurobond issues. For funding purposes, the Landesbanken are authorized to issue their own bearer bonds.

For more information about Germany's largest banking sector, just write to:

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EUROBONDS

By CARL GEWIRTZ

Convertibles Become Market Fad As Delayed-Payment Boom Fades

PARIS — Nothing tickles the Eurobond market more than a fad. Earlier this year it was zero-coupon issues. Then it was warrants. More recently, it was delayed- or partial-payment issues. Now it is convertibles.

The delayed-payment concept, so popular early this month, now is passé. "It was a good idea for maybe one or two of these issues," admits one prominent Eurobond manager, "but there is no market for eight or nine issues." That, actually, came to the market.

Another manager, speaking more bluntly, says: "It was a nice game, but it's all over. What the market wants now is paper issued at the right price."

The problem is that the delayed-payment paper was offered at terms that anticipate substantial further declines in long-term interest rates that not everyone believes the just beyond the new year. With only two exceptions, the delayed- and partial-payment issues all carry coupons of below 11 percent.

In addition, there is considerable concern about what kind of secondary market can be maintained in light of the heavy speculative element fueling demand. If everyone is buying such paper to make a quick profit in the assumption that assuming interest rates will fall, some investors have begun to worry about who will be willing to buy the paper when the purchasers try to cash in their profits.

"The market is saying it doesn't want bonds carrying coupons of less than 11 percent, at least not until they look reasonable in comparison to other yields," says a U.S. investment banker.

Increasingly, analysts note, the yield available on new issues compare unfavorably with yields to be had by buying older bonds trading in the secondary market. Yield differentials for the same borrower range up to two percentage points. Part of this discrepancy, bankers insist, reflects the fact that anyone wanting to buy tens of millions of bonds can only buy new issues, as such volume is not available in the secondary market and would dramatically move up the price of such paper and thereby lower the yield.

Nevertheless, with the new-issue market offering yields that anticipate yet another turn in the U.S. discount rate and the secondary market trading at levels that reflect existing conditions, the widening gap between the two segments of the market has to be closed before the new-issue market can function normally.

Most analysts expect U.S. interest rates to decline further. The only question is when. In the meantime, the bond market is awash with paper that is too aggressively priced to find an easy home.

Only 10 of 1994, offered a week ago at 9 3/4 percent, are quoted at 9 7/8 for a yield of 10.67 percent, while the 10-year 10 1/4 of 1990, offered at 9 1/2 percent, are quoted at 9 5/8 for a yield of 10.88 percent.

Only three straight dollar bonds were launched last week. Arizona Public Service is offering \$60 million of eight-year bonds bearing a coupon of 11 1/2 percent with pricing to be fixed on Nov. 30. This is the only new straight issue with a delayed payment — set for Jan. 25.

Hydro Quebec is seeking \$100 million for 10 years, offering a coupon of 11 1/2 percent.

Mitsui Finance, a subsidiary of and guaranteed by Mitsui Bank, is doing an interest rate swap by selling \$50 million of seven-year notes at par, bearing a coupon of 11 1/2 percent. The paper is being offered in minimum denominations of \$5,000.

Overall, however, attention has moved from classic fixed-rate straight

(Continued on Page 13, Col. 2)

\$1 Billion Deal Set by Indonesia

JAKARTA — Indonesia announced Saturday that it had awarded a \$1.05-billion contract for an oil refinery expansion project to a consortium of four Japanese companies.

The controversial deal, which some officials had argued the country neither needed nor could afford in the face of a worsening economic situation, was signed Friday, the national news service Antara said.

The deal — between Indonesia's state oil company Pertamina and the consortium of the Japan Gasoline Corp., C. Itoh & Co., Nissoh Iwai Corp. and the Far East Oil Trading Co. — involves the expansion and rebuilding of a refinery at Palembang in South Sumatra.

The infrastructure includes the construction of a terminal at Tanjung Buyut port, storage facilities for crude from the Aram, Minas and Lirik fields, and a 100-kilometer (62-mile) pipeline linking the terminal with the refinery.

According to authoritative industry sources, Fluor, Bechtel, Lummus of the United States and a group of West German companies also bid for the project.

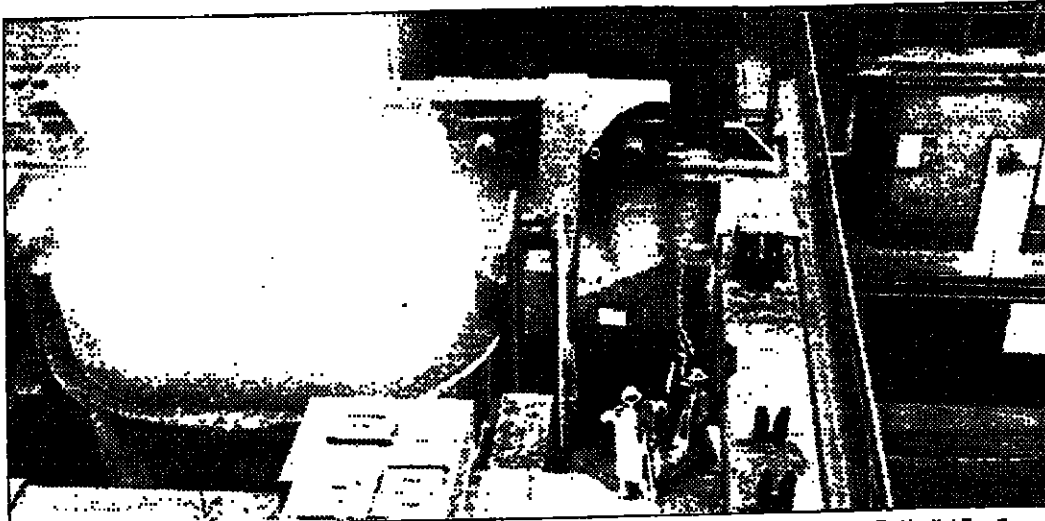
Under Indonesia's long term plans for refining self sufficiency, three other refineries are being graded and expanded to meet the growing domestic demand for fuel, mainly kerosene for cooking.

But the country has recently delayed or canceled other major projects — the largest being a \$3-billion plant in western Java — due to falling revenues from oil and other exports, increased overseas borrowing and projections that the 1982 balance of payments deficit could reach \$8 billion.

Pertamina officials said it was decided to go ahead with the Palembang project, set for completion in 1985, because of the need for naphtha as feedstock for a planned petrochemical complex in the area.

The deal with the consortium was signed 48 hours before a deadline set on soft financing terms by Japan's Import-Export Bank for the project.

Indonesia's current refining capacity stands at 200,000 barrels a day.



Inside Saelor, a French state-owned firm that has reduced capacity to offset a drop in demand.

Treatments Vary as Europeans Try To Salvage Ailing Steel Industries

By John Tagliabue

New York Times Service

BONN — First it was the steelmakers of Italy and Britain that were faltering; then those in France and Belgium. Now, even West Germany's perennially profitable steel industry will have to reduce capacity and jobs this year to increase profitability and assure future competitiveness.

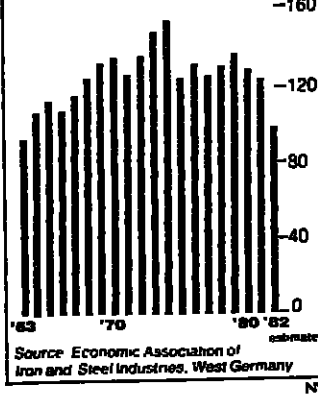
Crude steel production in Europe, beset by the same recession that is holding back the industry in Japan and the United States, will probably fall below 100 million metric tons this year for the first time since 1963.

Numerous companies, such as Belgium's Cockerill-Sambre and West Germany's Arbed Saarstahl, squeezed by mounting losses, are on the verge of insolvency. And unemployment in the industry has risen to dramatic levels: 12 percent in the Ruhr region in West Germany, 15 percent in the Meuse Valley in France.

"The industry has suffered along for seven years now," said Heinz Pariser of Alloy Metals and Steel, a West German consulting company. "When it drags on that long, you no longer talk of a crisis. It's become normality."

The magnitude of the problem is reflected in the gap between production and capacity. European Community members produced 125 million metric tons of crude steel in 1981, with a capacity of 202.5 million tons; the United States produced 108.8 million tons, with a capacity of 140 million tons,

Common Market's Steel Production



and Japan produced 101.7 million tons, with a capacity of 158.7 million tons. (A metric ton is equivalent to about 2,205 pounds.)

The demand for steel has plummeted in recent years for two major reasons. The worldwide recession has crippled the steelmakers' major customers: the automobile and construction industries. And customers have switched to new, stronger steels used in thinner configurations.

At the same time, demand from traditional overseas customers has virtually evaporated because the recession has eroded the buying power of developing countries and depressed oil sales have slashed de-

Occidental to Sell Assets to Reduce Its Mounting Debt

By Thomas C. Hayes

New York Times Service

LOS ANGELES — Occidental Petroleum plans to sell all or part of several businesses in an effort to raise more than \$2 billion and reduce its rapidly mounting debt.

The businesses for sale include the refining and marketing operations of Cities Service, and some of Occidental's large coal reserves. Occidental has cited its successful offer last summer to acquire Cities Service for \$4.05 billion as the primary reason for the company's indebtedness.

Occidental's plan to raise "significant proceeds" was outlined in a proxy statement issued Friday by Occidental and Cities Service for a Dec. 3 meeting of Cities Service shareholders.

There is a sense of urgency surrounding the sale. A new, combined company, with all of its assets in place, might have violated certain of its agreements with lenders, because dividends on both preferred and common stock would have exceeded, by \$30 million, a \$567 million ceiling set by lenders, according to the proxy statement.

Moreover, Occidental's profits fell 82 percent in the third quarter, to \$25.1 million, a decline that Occidental Chairman Armand Hammer attributed in part to loss of Occidental's coal and chemical businesses, high interest rates and costs associated with the acquisition.

Mr. Hammer has said that Occidental's main interest in Cities Service was its large domestic oil reserves.

John F. Ryan, an analyst with Rotan Mosie Inc., said portions of Occidental's rights to North Sea oil also might be offered.

But an Occidental spokesman said the company intended to sell its entire chemical business, principally Hooker Chemical Co., and focus exclusively on oil and food. The chemical sector accounted for \$1.2 billion of Occidental's \$8.1 billion in assets at the end of 1981.

Occidental also has said it intends to retain its interests in the Enxco joint venture to develop and produce oil and gas in the Gulf of Mexico, and its state petrochemical company.

Cities Service shareholders, at

their Dec. 3 meeting, are expected to approve the acquisition by Occidental, which was endorsed by Cities Service executives Aug. 25. Cities Service shareholder approval will be the last step in the merger agreement, which will create the eighth-largest U.S. oil company.

In the joint statement, the companies warned they would have to reduce anticipated capital spending for exploration, increase their debt, issue new preferred shares and possibly sell domestic gas properties if the sale of assets did not raise enough cash. Mr. Reece said, "The figure we would like to arrive at is somewhere in excess of \$2 billion."

During the quarter, Occidental bought 45 percent of Cities Service's common shares, financed by new borrowings of \$1.9 billion. Interest costs in the quarter nearly doubled, to \$66 million.

If Cities Service shareholders approve, Occidental would acquire the remaining 55 percent of Cities Service stock by swapping a combination of zero coupon notes and preferred stock. It is estimated that the merger will add \$227 million in annual interest costs and \$269 million in preferred dividend requirements.

The acquisition is expected to increase Occidental's long-term debt to about 50 percent of its capitalization, while increasing redeemable preferred shares to about 21 percent, from 12 percent. As of June 30, the two companies combined would have had \$4.87 billion in long-term debt.

The continuing recession makes the amount of cash that can be expected from the sale of assets uncertain.

Occidental acknowledged as much in the proxy material, noting that Cities Service had received an offer last summer for its refining, marketing and transportation unit "significantly below" its book value of \$709 million; an offer for its Columbia chemicals division was also "significantly below" the stated value of \$150 million. Cities Service reached an agreement last month to sell its gas transmission company to Northwest Energy.

The proxy statement said Occidental was also "actively considering" the sale of Cities Service's metals and plastics businesses.

OECD Session To Study Curbs On Free Trade Before GATT Talks

By Axel Krause

International Herald Tribune

PARIS — Senior environmental and health officials from major industrial countries will meet in Paris from Monday through Wednesday in a renewed effort to prevent the marketing of hazardous industrial chemicals in developed and developing nations, officials said.

The broad purpose of the meeting, sponsored by the Organization for Economic Cooperation and Development, is to encourage OECD member countries to adopt legislation preventing the marketing of hazardous chemicals while ensuring that such restrictions do not evolve into barriers to chemical trade, officials said.

Leading the effort to curtail the chemicals are a group of West European countries, mainly West Germany, Switzerland and Sweden. Other major OECD countries, including the United States, Japan, Britain, France and Italy, are showing varying degrees of support, conference sources said.

Industry and trade union groups are supporting the effort, and their representatives plan to consult with participating officials on Monday, OECD officials said.

The Business and Industry Advisory Committee to the OECD is concerned about protecting the chemical industry's confidential data while the OECD's Trade and Development Committee is primarily interested in protecting workers from the effects of hazardous chemicals, officials said.

"Some governments already control hazardous chemicals once they are on the market," said a senior OECD official. He said the purpose of the meeting is to prevent the chemicals from being marketed.

The chemical industry in the 24-nation OECD area generates roughly \$200 billion in sales annually and introduces about 1,000 new chemicals each year. Of roughly 60,000 chemicals on the market, 5 percent are "somewhat" hazardous and 1 percent are "very" dangerous, according to OECD estimates.

OECD officials noted that the United Nations World Health Organization and the Food and Agriculture Organization recently approved the OECD regarding possible application of the emerging chemical rules in developing countries, notably South Korea, Singapore, Mexico and Brazil.

"Controls on hazardous chemicals in most of these countries' chemical industries are presently nonexistent," an official said.

An OECD meeting in May 1980 resulted in agreement among member countries to accept data on chemicals generated in another

statement in time for next week's conference.

■ Third World Textile Talks

The EC's main Third World Textile Talks will take place this week in a last attempt to secure new textile agreements before the EC imposes tough import controls, Reuters reported Sunday from Brussels.

Diplomats and EC officials said there were still crucial differences between the two sides that could prevent agreement on the new four-year deals, designed to regulate imports.

Nine developing countries, which together provide more than half the EC's imports of textiles from the Third World, have failed after two rounds of talks to agree on the new conditions. They say the EC's terms are too tough.

But their hard-line stance could lead to an EC tightening of imports when the present agreements run out at the end of this year, EC officials said.

The EC has also said it will pull out of the international multilateral arrangement, which governs 80 percent of the world's textile trade, if the group fails to conclude satisfactory deals.

Diplomats said such a move could wreck the entire textile trading system.

The 10-member EC, the Third World's largest market, insists on quota cuts for some clothing categories and on clauses to stamp out fraud and prevent sudden sharp increases in clothing on European markets.

It argues that problems in Europe's textile industry, which has lost one million jobs in the past eight years, have entitled it to keep down the overall increase of cheap imports to about one per cent.

Talks produced agreements with 18 countries, but they were discontinued in September after the EC failed to break a deadlock with nine major suppliers, including Hong Kong, South Korea and Mexico.

On the advice of the body's executive commission, governments agreed to invite the nine countries back for final talks, but stressed that they would not offer more generous terms.

Hong Kong in particular is angry about the deal offered. The British colony relies on textile exports for 40 per cent of its foreign revenue, and has rejected any reduction in its exports.

The EC's chief negotiator, Horst Krenzler, told reporters last week that he is doubtful that the body would reach agreement with Hong Kong.

CURRENCY RATES

Interbank exchange rates for Nov. 12, excluding bank service charges.									
	\$	£	D.M.	F.F.	S.F.	Sw.	Y.	Sc.	DK.
Amsterdam	2.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37
Brussels (a)	2.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37
Frankfurt	2.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37
London (a)	2.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37
Milan	2.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37
New York	2.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37
Paris	2.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37
Zurich	2.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37
1 ECU	0.937	0.547	2.36	1.37	1.37	1.37	1.37	1.37	1.37
1 SDZ	1.942	0.642	2.37	N.A.	N.A.	2.37	1.37	1.37	1.37

(a) Commercial franc. (b) Amounts needed to buy one pound. (*) Units of 100. (x) Units of 1,000.

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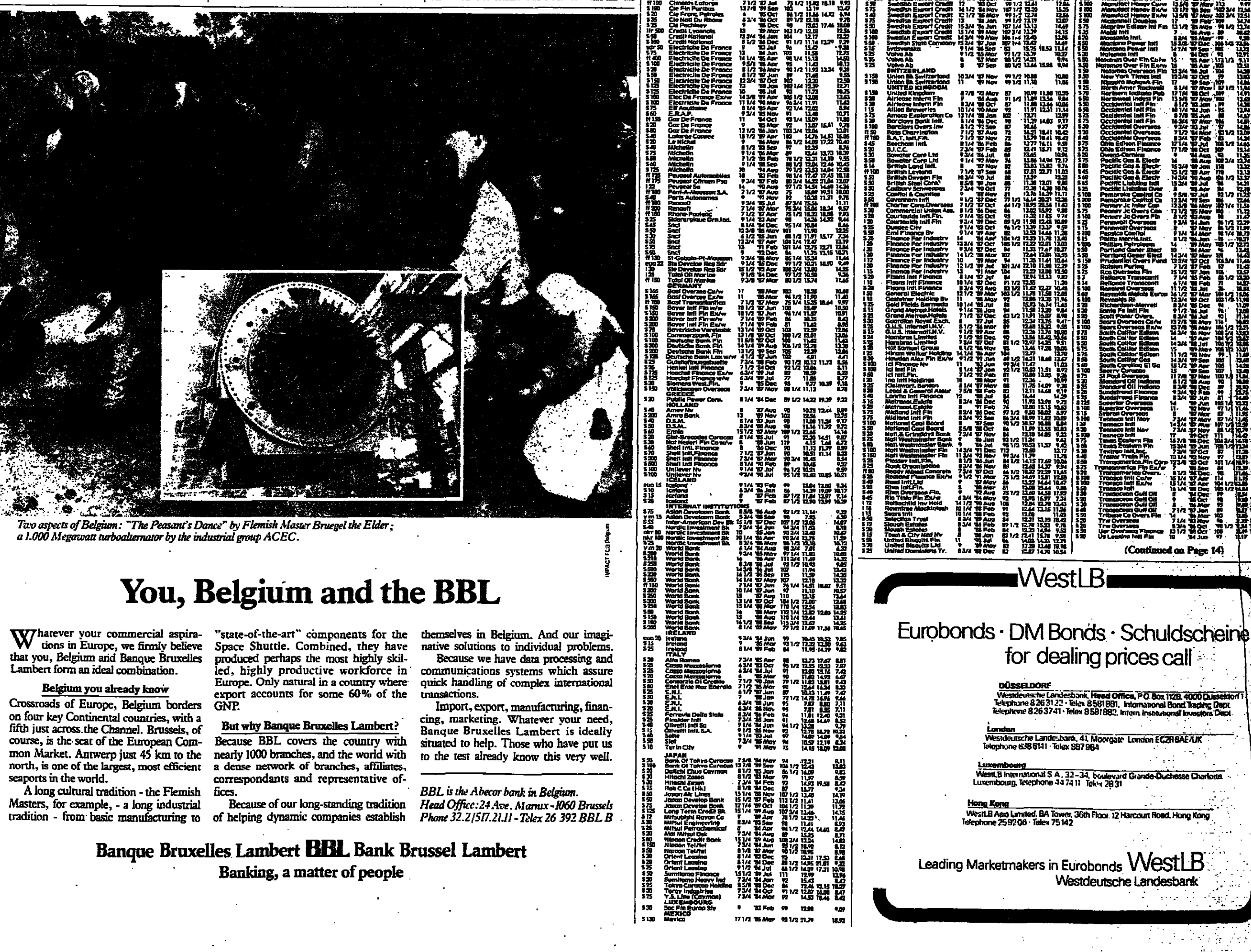
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November 3, 1982

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(Continued on Page 14)

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Selected U.S. College Football Results

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	30	419	171	2-14	10 3/4
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	30	489	0	2-14	10

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92

**Common Brothers
National**


Union 14, Huntington 0
Wagner 42, Kean 0
W. Maryland 55, Johns Hopkins 0
Wildner 34, Swarthmore 7
Yale 37, Princeton 11

SOUTH
Aurilia Peay 31, Tennessee Tech 27
Clemson 24, Maryland 22
Davidson 13, Columbia 22
E. Carolina 31, William & Mary 27
Florida 28, Kentucky 13
Florida St. 46, Louisville 14
Furman 45, Morehead 7
Georgia 19, Auburn 14
Georgia Tech 43, Wake Forest 7
Grambling St. 33, Nicholls St. 15
Jacksonville 59, 46, Troy 51, 14
Mississippi St. 27, Louisiana St. 24
Morehead 51, 46, Akron 14
N. Carolina 27, Virginia 14
N. Carolina St. 21, Duke 16
N. Texas 21, 22, Richmond 13
NW Louisiana St. 55, Louisiana 3
S. Carolina 17, Sew 14
S. Mississippi 28, Alabama 29
Southern U. 24, Florida A&M 21
Tennessee 26, Mississippi 17
Tennessee St. 63, Mississippi Val. 41
Vanderbilt 45, Virginia Tech 9
VMI 31, Appalachian St. 14

WOST. L. Lee & Georgetown 0
MIDWEST
Bowling Green 24, E. Michigan 7
Cincinnati 32, Morgan St. 0
Droke 42, Illinois St. 35
E. Illinois 78, Kentucky St. 0
Illinois 49, Indiana 7
Iowa 28, Wisconsin 14
Kewanee 28, Hiram 6
Michigan 32, Purdue 21
Michigan 26, Minnesota 7
Nebraska 48, Iowa St. 10
N. Illinois 12, Miami (Ohio) 7
Ohio St. 42, Northwestern 28
Oklahoma St. 24, Kansas St. 16
Penn St. 24, Notre Dame 14
Pittsburg St. 28, Ala. Western 20
Toledo 3, Kent St. 0
Wabash St. DePauw 4

SOUTHWEST
Ankeny St. 44, Sam Houston St. 14
Arkansas 25, Texas A&M 0
Arkansas 25, Texas A&M 0
Baylor 35, Rice 12
Howard Payne 34, Texas A&M 0
New Mexico 29, Colorado 32
NE Oklahoma 23, SE Oklahoma 21
Oklahoma 41, Missouri 14
SMU 24, Texas Tech 27

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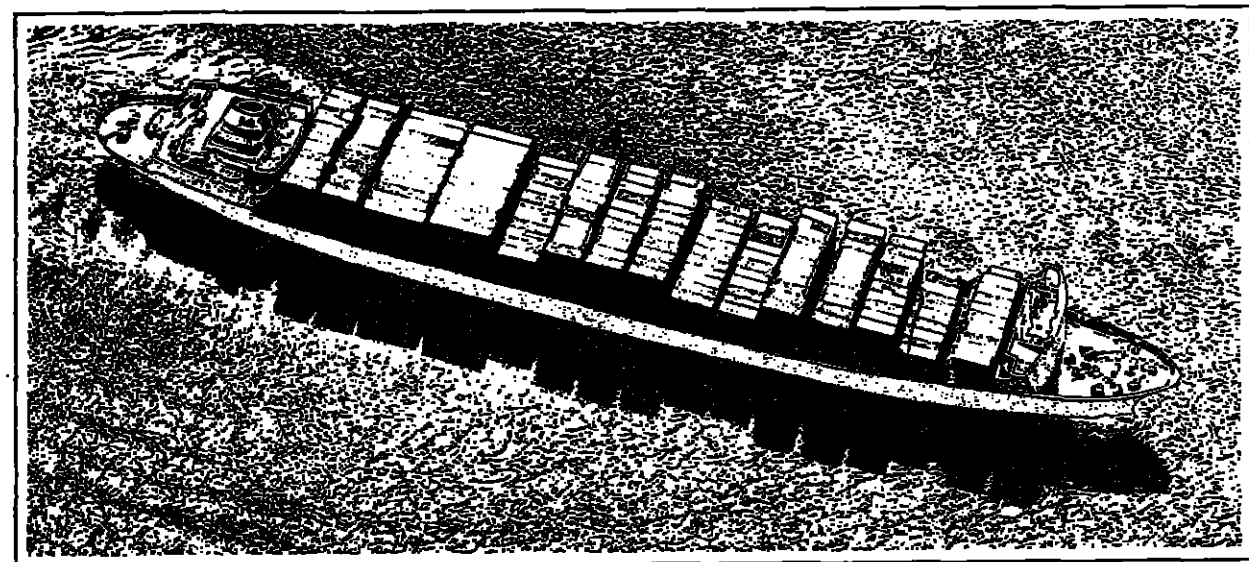
Stephen F. Austin 17, E. Texas 54, 14
Texas 26, TCU 27
Tulsa 46, Indiana 51, 14
Utah 46, Texas-EI Paso 30
W. Texas St. 30, New Mexico St. 28

PAC WEST

Boise St. 30, Utah St. 18
Brigham Young 38, San Diego St. 8
California 34, Washington St. 14
Colorado St. 30, Kansas 7
E. Oregon 23, W. Washington 20
E. Washington 41, W. Montana 14
Idaho St. 14, Arkansas 37
Montana St. Weber St. 29
Nevada-Reno 34, Idaho St. 14
San Francisco St. 77, Humboldt St. 7
San Jose St. 31, Pacific U. 8
Southern Cal 46, Arizona 41
UCLA 38, Stanford 25
Washington 17, Arizona St. 13
Wyoming 24, Wichita St. 20

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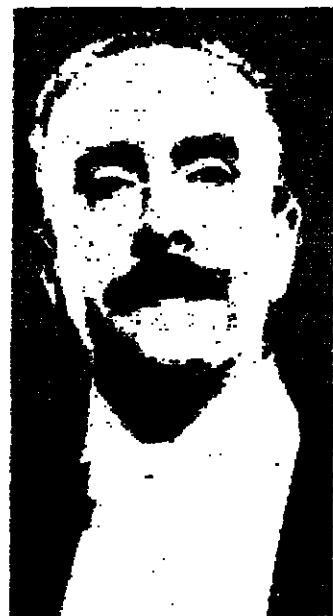
Blipping the Market

New York Times Service

Of all the stock-market terms, which will cross into the general language? My money is on *blip*. It is a much shorter term than *flash in the pan*, a military expression taken from the flash of the priming in the pan of a flintlock musket which fails to explode the charge, and now means a quickly dashed hope.

Claudio Arrau

As He Nears 80, a Noted Pianist Wishes For Another 100 Years, 'Just to Read'



Arrau in concert heyday.

has a type or obsession, having proved everything rationally, to find as the ultimate proof also a mystical reason for things. Oh, he's a fascinating person."

The celebrations of Arrau's 80th anniversary began last month and continue well past the birthday itself. The Chilean-born

"Oh, yes, I would advise the young pianist at times to stay off the instrument for weeks. He should visit museums, he should go to the theater. A pianist should not specialize only in music, but become an artist."

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An Unusual Novelist

Jama said he became interested in his country's traditions after a run-in with British soldiers, when he was in northern Somalia, where he grew up. Britain controlled the rest of the half of the country and

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